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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)



ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

or



TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 1-13625

EOP OPERATING LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

Two North Riverside Plaza,
Suite 2100, Chicago, Illinois
(Address of principal executive offices)

36-4156801

(I.R.S. Employer Identification No.)

60606
(Zip Code)

Registrant's telephone number, including area code
(312) 466-3300

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

None

Name of each exchange on which registered

None

Securities registered pursuant to Section 12(g) of the Act:

(None)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒Accelerated filer ☐Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the Units held by non-affiliates of the registrant as of June 30, 2005 (the last business day of the registrant's most recently completed second fiscal quarter) was \$1.4 billion based on the market value on that date of the Common Shares of Equity Office

Properties Trust into which Units are exchangeable.

On February 28, 2006, 412,687,199 Units were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Equity Office Properties Trust proxy statement for the annual shareholders' meeting to be held in 2006 are incorporated by reference into Part III. Equity Office Properties Trust expects to file its proxy statement within 120 days after December 31, 2005.

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EOP Operating Limited Partnership ("EOP Partnership") is the largest owner and manager of office properties in the United States. We own, manage, lease and develop office properties. At December 31, 2005, we had a national office portfolio comprised of whole or partial interests in 622 office buildings located in 16 states and the District of Columbia. We own premium quality office buildings. Based on our Effective Office Portfolio (as defined below), which consists of 101.7 million square feet, 39.4% and 60.6% of our properties are located in central business districts and suburban locations, respectively. At December 31, 2005, we owned buildings in 22 markets and 101 submarkets, including our 17 core markets which are:

Atlanta	New York	San Francisco
Austin	Oakland/East Bay	San Jose
Boston	Orange County	Seattle
Chicago	Portland	Stamford
Denver	Sacramento	Washington, D.C.
Los Angeles	San Diego	

We believe our core markets generally offer the following: a strong opportunity for us to be a market leader; an ability to leverage our operating platform; sufficient market size for us to achieve scale and grow; an intellectual and cultural infrastructure; and a highly educated workforce.

We operate our properties using a portfolio-based model as compared to many real estate owners who operate on a property-by-property basis. We believe this approach allows us to operate efficiently while providing a high level of service to our tenants. Our market concentrations enable us to provide a wide range of office solutions to tenants who have local, regional and national office space needs.

Equity Office Properties Trust ("Equity Office") is a Maryland real estate investment trust ("REIT"). Equity Office was organized in 1996 and began operations in 1997. EOP Partnership was also organized in 1996 and began operations in 1997. Equity Office is the sole general partner of EOP Partnership, a Delaware limited partnership. Equity Office owns substantially all of its assets and conducts substantially all its operations through EOP Partnership and its subsidiary entities. As of December 31, 2005, Equity Office owned 89.7% of the partnership units ("Units") of EOP Partnership. The remaining Units in EOP Partnership are held by various limited partners who have the right to require redemption of their Units at any time from Equity Office. The use of the word "we", "us", or "our" in this Form 10-K refers to EOP Partnership, its subsidiaries, and Equity Office, except where the context otherwise requires.

Equity Office's internet website is www.equityoffice.com. Our filings with the SEC are provided to the public on this website, free of charge, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Equity Office's corporate governance guidelines, codes of business conduct and ethics and charters for its various board committees are available on its website and in print to any shareholder or unitholder who requests such documentation. In addition, the SEC maintains an internet website that contains reports, proxy and information statements, and other information regarding issuers, including EOP Partnership, that file electronically with the SEC at www.sec.gov.

Table of Contents**Office Properties**

As of December 31, 2005, we owned whole or partial interests in 622 office properties comprising 111.5 million square feet in 16 states and the District of Columbia ("Total Office Portfolio"). After excluding the partial interests owned by our joint venture partners, our share of the Total Office Portfolio is 101.7 million square feet and is referred to as our "Effective Office Portfolio." Our Effective Office Portfolio represents our economic interest in the office properties from which we derive the net income we recognize in accordance with GAAP. Properties that have been taken out of service and properties under development are not included in these property statistics. Throughout this Form 10-K we disclose information for both the Total Office Portfolio and the Effective Office Portfolio. The table below shows, in summary, the property statistics for each portfolio as of December 31, 2005.

	<u>Number of Buildings</u>	<u>Total Office Portfolio</u>		<u>Effective Office Portfolio</u>	
		<u>Occupied Square Feet</u>	<u>Square Feet</u>	<u>Occupied Square Feet</u>	<u>Square Feet</u>
Wholly-Owned Properties	562	77,309,801	85,927,640	77,309,801	85,927,640
Consolidated Joint Ventures	22	10,585,857	11,143,588	9,529,373	9,983,557
Unconsolidated Joint Ventures	38	12,990,416	14,437,825	5,146,371	5,797,094
Total	622	100,886,074	111,509,053	91,985,545	101,708,291
Percent Occupied		90.5%		90.4%	
Percent Leased		91.8%		91.9%	

BUSINESS STRATEGY

Our primary business objective is to maximize unitholder value. We seek to achieve sustainable long-term growth in cash flow and portfolio value by owning and operating premium quality office buildings and providing a superior level of service to our customers.

Our business strategy includes:

- concentrating capital in our core markets where we believe we can best position ourselves to maximize value and generate long-term attractive returns;
- increasing occupancy by leasing vacant space and retaining tenants on economically attractive terms; and
- achieving economies of scale over time.

ACQUISITION, DISPOSITION AND DEVELOPMENT ACTIVITY

Over the past five years, we have acquired whole or partial interests in \$10.0 billion (calculated on a cost basis) and have disposed of whole or partial interests in \$6.0 billion (calculated based on the sales price) of premium quality office properties, industrial properties, parking facilities and vacant land parcels throughout the United States.

<u>Year</u>	<u>Effective Office Portfolio</u>	
	<u>Acquisitions</u>	<u>Dispositions</u>
	(Dollars in millions)	
2005	\$ 1,442.2	\$ 2,736.5
2004	952.0	684.2
2003	227.8	1,529.6
2002	171.1	508.3
2001	7,237.7	541.2
Total	\$ 10,030.8	\$ 5,999.8

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Over the last two years, we took steps to reposition our portfolio for long-term growth. We took advantage of a favorable asset-sale environment and during 2005 sold on an Effective Office Portfolio basis \$2.7 billion of assets comprising 17.8 million square feet and several vacant land parcels. Our portfolio is comprised of premium quality office buildings in diverse geographic markets. More than 96% of our assets (based on square feet) are currently located in our 17 core markets.

Acquisitions

As part of our business strategy, we intend to acquire additional office properties assuming that capital and acquisition opportunities are available to us on terms we deem satisfactory. Properties may be acquired separately or as part of a portfolio and may be acquired for cash, in exchange for our debt or equity securities, or in exchange for our properties. These acquisitions may be single property transactions, joint ventures, mergers or other business combinations.

Management considers various factors when evaluating property acquisitions. These factors include but are not limited to:

- an attractive going-in yield, as well as the potential to increase operating income over time by increasing revenues and occupancy;
- the property's location in one of our core markets;
- the attractiveness of the property to existing and potential tenants;
- the likelihood and relative attractiveness of competitive supply;
- the anticipated demand for space in the local market;
- the creditworthiness and diversity of risk of the tenants occupying the property;
- the physical condition of the property, including the amount of funds required for maintenance and physical upgrades needed in order to establish or sustain market competitiveness; and
- the cost structure of the property.

Dispositions

It is also part of our business strategy to strategically dispose of office properties, from time to time, especially in our non-core markets, assuming that such opportunities are available to us on terms we deem satisfactory. Properties may be sold separately or as part of a portfolio for cash or in a tax-deferred exchange.

Management considers various factors when evaluating potential property dispositions. These factors include but are not limited to:

- our estimate of the future returns on the asset being sold;
- whether the property is strategically located within a market or whether the market is one of our core markets;
- our ability to sell the property at an attractive price;
- our ability to recycle capital into core markets and other activities consistent with our business strategy;
- the tax consequences of the disposition and whether it can be structured as a tax-deferred exchange;
- tenant composition and lease rollover for the property;
- general economic conditions and outlook, including job growth in the local market; and
- the general quality of the asset, including its physical condition and the amount of capital required to maintain its competitiveness.

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Developments

Our policy is to prudently pursue development and redevelopment projects where a customer need is evident and market conditions warrant. We own various undeveloped land parcels on which office space could be built, assuming our receipt of necessary permits, licenses and approvals. Although we may develop some properties ourselves, a portion of this activity may also be conducted with joint venture partners. If we develop a property with a joint venture partner, we may not have the same degree of control over the property as if we owned it ourselves. In addition, if we develop a property with a joint venture partner, we will be required to share a portion of the economic benefits from such property with our joint venture partner.

In determining whether to enter into a new development, the acquisition criteria listed above are considered as well as the additional risks of development, including the following:

- our assessment of the returns from such development;
- the extent of lease-up risk in the context of the demand/supply characteristics of the local market;
- the ability to minimize construction risks; and
- the quality of local development partners, if applicable.

FINANCING POLICIES

A primary objective of our financing policy has been to manage our financial position to allow us to raise capital from a variety of sources at competitive rates. Our partnership agreement and Equity Office's bylaws do not limit the amount or percentage of indebtedness that we may incur. Equity Office conducts substantially all of its debt-financing activities through EOP Partnership using a combination of secured and unsecured debt issued by EOP Partnership or its affiliates but in many cases guaranteed by Equity Office. An important source of liquidity for us is our \$1.25 billion line of credit, which matures in August 2009 as well as other bank facilities which may be available to us from time to time. The terms of our line of credit and unsecured notes contain various financial covenants and other limitations.

To the extent that Equity Office's Board of Trustees seeks capital in addition to debt financing, Equity Office may elect to issue equity or convertible securities, cause us to issue additional Units, retain its earnings (subject to the provisions of the Internal Revenue Code requiring distributions of taxable income to maintain REIT status), dispose of our properties, enter into joint ventures or a combination of these methods. Under the terms of our partnership agreement, the proceeds of all equity capital Equity Office raises must be contributed to EOP Partnership in exchange for additional interests in EOP Partnership.

DIVIDEND POLICY

In order to qualify as a REIT for federal income tax purposes, Equity Office must distribute an amount equal to at least 90% of its taxable income (excluding capital gains) to its shareholders. Equity Office currently distributes amounts attributable to capital gains to its shareholders; however, these amounts can be retained by Equity Office and taxed at the corporate tax rate. Our partnership agreement generally requires us to distribute substantially all of the net cash from operations each quarter to make reasonable efforts to distribute to Equity Office enough cash for it to meet the 90% distribution requirement. Accordingly, we currently intend, although we are not legally obligated, to continue to make regular quarterly distributions to holders (including Equity Office) of our Units and preferred units, at least at the level required for Equity Office to maintain REIT status. The declaration of dividends on capital shares is at the discretion of Equity Office's Board of Trustees, which decision is made quarterly by Equity Office's Board of Trustees based on then prevailing circumstances. We anticipate that our 2006 annual Unit distribution will be \$1.32 per Unit, down from the 2005 annual distribution of \$2.00 per Unit. This reduction began to take effect with the first quarter 2006 distribution, which was announced in March.

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Information related to our operating segment is set forth in Item 8 — Note 19.

COMPETITION

The real estate industry is highly competitive. We compete with a considerable number of other companies in the ownership, management and leasing of real estate. We compete for tenants in our markets primarily on the basis of property location, rent charged, services provided and the design and condition of our properties. We also experience intense competition when attempting to acquire or divest ownership of real estate building sites or redevelopment opportunities, including competition from domestic and foreign financial institutions, other REITs, life insurance companies, pension trusts, trust funds, partnerships and individual investors.

ENVIRONMENTAL EXPOSURE

As an owner of real estate, we are subject to various environmental laws of federal, state and local governments. Compliance with existing environmental laws has not had a material adverse effect on our financial condition or results of operations, and management does not believe it will have such an impact in the future. However, we cannot predict the impact of unforeseen environmental contingencies or new or changed laws or regulations on our properties, properties that we have sold or on properties that may be acquired in the future.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

Although there are no restrictions on our ability to expand into foreign markets, we currently operate solely within the United States.

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As of December 31, 2005, Equity Office had approximately 2,300 employees who provide real estate management, leasing, legal, financial and accounting, acquisition, disposition and marketing expertise throughout the country.

Executive Officers of the Registrant

The eight executive officers of Equity Office have an average tenure of ten years with Equity Office or its affiliates or predecessors and an average of 20 years experience in the real estate industry.

As of February 28, 2006, the following executive officers of Equity Office held the offices indicated:

<u>Name</u>	<u>Age</u>	<u>Offices Held</u>
Richard D. Kincaid	44	President and Chief Executive Officer
Debra L. Ferruzzi	45	Executive Vice President — Corporate Strategy
Jeffrey L. Johnson	46	Executive Vice President and Chief Investment Officer
Lawrence J. Krema	45	Executive Vice President — Human Resources and Communications
Peyton H. Owen, Jr.	48	Executive Vice President and Chief Operating Officer
Stanley M. Stevens	57	Executive Vice President, Chief Legal Counsel and Secretary
Marsha C. Williams	54	Executive Vice President and Chief Financial Officer
Robert J. Winter, Jr.	60	Executive Vice President — Development and Joint Venture Management

Set forth below is biographical information for each of Equity Office's executive officers:

Richard D. Kincaid has been a trustee and President since November 2002 and Chief Executive Officer since April 2003. Mr. Kincaid also has held the following positions:

- Executive Vice President from March 1997 until November 2002;
- Chief Operating Officer from September 2001 until November 2002;
- Chief Financial Officer from March 1997 until August 2002;
- Senior Vice President from October 1996 until March 1997;
- Senior Vice President and Chief Financial Officer of Equity Office Holdings, L.L.C., a predecessor of ours, from July 1995 until October 1997;
- Senior Vice President of Equity Group Investments, Inc., an owner and financier of real estate and corporate investments, from February 1995 until July 1995;
- Senior Vice President of The Yarmouth Group, a real estate investment company in New York, New York, from August 1994 until February 1995; and
- Senior Vice President — Finance of Equity Group Investments, Inc. from December 1993 until July 1994.

Debra L. Ferruzzi has been Executive Vice President — Corporate Strategy since September 2005. Ms. Ferruzzi also has held the following positions:

- Senior Vice President — Corporate Strategy from June 2003 until September 2005;
- Senior Vice President and Executive Advisor from June 1998 until May 2003; and

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- Senior Vice President, Capital Markets Group, of Equity Group Investments, Inc., a private investment company, until May 1998 (in this capacity, Ms. Ferruzzi was responsible for securing financing for Equity Group Investment's private real estate holdings, including office, retail and residential assets, and was responsible for securing lines of credit for Manufactured Home Communities, Inc. and Equity Residential Properties Trust, real estate investment trusts), as well as other positions beginning in June 1982.

Jeffrey L. Johnson has been Executive Vice President and Chief Investment Officer since May 2003. Mr. Johnson also has held the following positions:

- Managing Partner and owner of Lakeshore Holdings, LLC, a private equity firm focusing on real estate investment founded by Mr. Johnson in conjunction with Lehman Brothers Holdings Inc., a global financial services firm, from December 2002 until May 2003 (in this capacity, Mr. Johnson was responsible for all aspects of the business);
- Managing Director of Lehman Brothers Holdings Inc. from March 2000 until November 2002 (in this capacity, Mr. Johnson was a founding partner and co-head of domestic investments for Lehman Brothers' first real estate private equity group and was instrumental in helping raise the company's \$1.6 billion fund and developing the investment strategy for the fund, built the investment team and implemented its investment process);
- Chief Investment Officer of Equity Office from March 1998 until June 1999; and
- Senior Vice President — Investments of Equity Office from March 1997 until June 1999.

Lawrence J. Krema has been Executive Vice President — Human Resources and Communications since November 2002. Mr. Krema also has held the following positions:

- Senior Vice President — Human Resources from March 2001 until November 2002; and
- Vice President of NEC Technologies, Inc., a supplier of presentation systems, computing and related technologies for the North American market, from April 1995 until October 2000 (in this capacity, Mr. Krema managed the human resources division of the company in North America and was responsible for corporate services, which included real estate, travel and office services).

Peyton H. Owen, Jr. has been Executive Vice President and Chief Operating Officer since October 2003. Mr. Owen also has held the following positions:

- Chief Operating Officer — Americas Region of Jones Lang LaSalle, a global provider of integrated real estate and investment management services, from April 1999 until October 2003 (in this capacity, Mr. Owen oversaw 5,500 people in 100 markets in the United States, Canada and Mexico; Investor Services, which included leasing and property management; Corporate Solutions, which included tenant representation, facility management and project management; and Capital Markets; and implemented standardized processes, new technologies and compliance measurements, and consolidated the organizational structure); and
- Executive Vice President and Chief Operating Officer — Leasing and Management of LaSalle Partners, predecessor of Jones Lang LaSalle, from January 1996 until April 1999 (in this capacity, Mr. Owen oversaw the leasing and management activities for a 200-million-square-foot investment property portfolio, restructured leasing and management across 20 markets and led due diligence and integration in various corporate acquisitions).

Stanley M. Stevens has been Executive Vice President since September 1996 and Chief Legal Counsel and Secretary since October 1996. Mr. Stevens also was Executive Vice President and General Counsel of Equity Office Holdings, L.L.C. from September 1996 until October 1997.

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Marsha C. Williams has been Executive Vice President and Chief Financial Officer since August 2002. Ms. Williams also has held the following positions:

- Chief Administrative Officer of Crate and Barrel, a national Chicago-based retailer of home furnishings and accessories (Crate and Barrel is the trade name of Euromarket Designs Inc., which is an indirect majority-owned subsidiary of Otto, formerly Otto Versand GmbH & Co., a German mail-order company), from May 1998 until August 2002 (in this capacity, Ms. Williams participated in the planning and execution of Crate and Barrel's growth strategy and managed its finance, accounting, information technology, warehousing, distribution and logistics, loss prevention, strategic planning, direct marketing operations and purchasing departments); and
- Vice President of Amoco Corporation, a worldwide energy and chemical company, from December 1997 until April 1998 and Treasurer of Amoco Corporation from October 1993 until April 1998, as well as other capacities and positions from November 1989 until October 1993.

Robert J. Winter, Jr. has been Executive Vice President — Development and Joint Venture Management since February 2005. Mr. Winter also has held the following positions:

- Executive Vice President — Development and Portfolio Management from November 2002 until February 2005;
- Senior Vice President — Development from June 2002 until November 2002;
- Senior Vice President — Development Investments from July 2001 until June 2002;
- President and Chief Executive Officer of Amli Commercial Properties Trust, a private real estate investment trust with office and industrial properties in the suburban Chicago market, from August 1998 until July 2001 (in this capacity, Mr. Winter was responsible for all aspects of the company's business, including the development, management and ownership of its properties); and
- President and Chief Executive Officer of Amli Commercial Properties, LLC, a limited liability company and predecessor of Amli Commercial Properties Trust, from November 1996 until July 1998 (in this capacity, along with developing the business, Mr. Winter was responsible for forming Amli Commercial Properties Trust).

Item 1A. Risk Factors.

Forward-Looking Statements

This Annual Report on Form 10-K includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. When used, words such as "anticipate", "believe", "intend", "may be", "will be" and similar words or phrases, or the negative thereof, unless the context requires otherwise, are intended to identify forward-looking statements. These forward-looking statements are based on management's present expectations and beliefs about future events. As with any projection or forecast, these statements are inherently susceptible to uncertainty and changes in circumstances.

Important factors that could cause actual results to differ materially from those reflected in such forward-looking statements and that should be considered in evaluating our outlook include, but are not limited to, those listed under the caption "Risk Factors" below. EOP Partnership is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Risk Factors

We are subject to various risks, including the ones identified below. If the events discussed in these risk factors occur, EOP Partnership's business, financial condition, results of operations or cash flows could be materially adversely affected. In such case, the market value of our securities could decline.

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Improvements in our market conditions have not yet offset the impact of prior declines in rent and in overall activity in our markets as well as increases in our expenses and other adverse factors

During periods of slower economic growth and decline in white-collar employment, such as occurred beginning in 2001, we experience a decrease in occupancy as well as rental rates accompanied by increases in the cost of re-leasing space (including for tenant improvements) and in uncollectible receivables. Although we believe office market conditions have, or have begun to, stabilize and are improving in most of the markets in which we have a presence, the financial impact of the on-going roll-down in rents of expiring leases to lower current market rents will continue to impact our financial results negatively until the earlier of the expiration of all leases entered into at the height of the market or full recovery of such markets.

A significant contributor to the decline in occupancy for our office properties since 2001 has been early lease terminations. Early lease termination payments increased in 2005 as compared to 2004 (largely as a result of a single transaction, which did not impact our occupancy as a result of our ability to re-lease the space). While lease termination fees increase current period income, future rental income is generally lower because, during periods in which market rents have declined, it is unlikely that we will collect from replacement tenants the full contracted amount which had been payable under the terminated leases. Moreover, our ability to release the vacated space is not assured and may be affected by macroeconomic factors we do not control.

An improvement in our operating results related to the recent improvement in the office market fundamentals has been offset by the rent roll down that we continue to experience, increased operating and general and administrative expenses and the dilutive impact of our disposition activities. Our financial results were also adversely impacted by losses and impairment charges as a result of assets sold and assets we intend to sell.

Our long term leases cause our operating results to lag improving market conditions; our geographic diversity may cause our operating results to be less favorable than operating results in the strongest markets

Since our average lease term is approximately five to six years, only 10% to 15% of our Total Office Portfolio square feet expires and is "re-priced" to current market rates each year. This means that when business fundamentals improve in the office business, improvements in our operating results tend to lag such improvements. Further, we operate in a large number of office markets. All office markets do not recover at the same pace. As a result, our operating results may, in the short or medium term, be less favorable than that demonstrated by portfolios which are concentrated in markets that recover more rapidly than the overall market.

In order to continue to pay distributions to our unitholders at anticipated levels, we must borrow funds or sell assets

Lower occupancy levels, reduced rental rates, and reduced revenues as a result of asset sales, together with certain increases in operating expenses have had the effect of reducing our net cash provided by operating activities. In addition, our tenant improvement and leasing costs have increased significantly due to competitive market conditions for new leases. During the years ended December 31, 2005 and 2004, our net cash provided by operating activities was insufficient to pay 100% of distributions to our unitholders, in addition to capital investments in our properties such as tenant improvements, leasing costs and capital improvements. We funded these deficits primarily with a combination of borrowings under our line of credit and proceeds from property dispositions. Although we anticipate that our 2006 annual unit distribution, which is subject to quarterly Equity Office board approval, will be reduced from \$2.00 per unit to \$1.32 per unit, these deficits are likely to continue in 2006 (based on expected levels of capital expenditures), though at a diminished level and it is anticipated that we will fund such deficits in a similar manner.

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We were a net seller of real estate in 2005, which will further reduce our income from continuing operations and funds from operations. Future disposition activity may also result in gains or losses on sales of real estate and impairment charges

We were a net seller of real estate in 2003, a net buyer in 2004 and a net seller of real estate in 2005. We may engage in additional disposition activity in 2006 (not expected to be at the level of 2005) which will further reduce our income from continuing operations and funds from operations and may also result in gains or losses on sales of real estate and impairment charges. The impact from such dispositions on our financial condition and results of operations will also depend, to a great extent, on how we utilize the proceeds of such dispositions and the timing of such utilization. Whether we are in fact a net seller of real estate in 2006, will depend on various factors, certain of which are beyond our control, including market conditions.

Our performance and share value are subject to risks associated with the real estate industry

As a REIT, Equity Office is susceptible to the risks associated with the real estate industry, including the following:

- Downturns in national, regional and local economic conditions and the level of white-collar employment in markets where our properties are located;
- Unfavorable capital market conditions which could affect our ability to complete any property dispositions or acquisitions on a timely basis or on economically attractive terms;
- Local conditions such as an oversupply of office properties, including space available by sublease, or a reduction in demand for high-rise and other office properties;
- The relative attractiveness of our properties to tenants;
- The extent of competition from other available office properties;
- Changes in market rental rates, particularly as our buildings age, and our ability to fund repair and maintenance costs;
- Our ability to fund the increased cost of tenant improvements and other costs required to lease or re-lease space;
- Our ability to collect rent and expense reimbursements from tenants;
- Our ability to complete and lease current and future developments on schedule and in accordance with budget; and
- The cost and availability of adequate insurance (including coverage for catastrophic events such as earthquakes, hurricanes and terrorist acts).
- Increases in utility, security and other operating costs, including real estate taxes, that may increase over time as markets stabilize or otherwise be subject to macroeconomic factors, and that are not necessarily reduced when circumstances such as local market factors and competition cause a reduction in income from the property.

Our properties face significant leasing competition

We face significant competition from other owners, operators and developers of office properties. All of our properties face competition from similar properties in the same markets. Such competition affects our ability to attract and retain tenants, impacts the rents we are able to charge and may increase tenant improvement and leasing costs. These competing properties may have vacancy rates higher than our properties, which may result in their owners being willing to make space available at lower rental rates than the space in our properties.

Table of Contents*We face potential adverse effects from tenant bankruptcies or insolvencies*

The bankruptcy or insolvency of our tenants may adversely affect the income produced by our properties. If a tenant defaults, we may experience delays and incur substantial costs in enforcing our rights as landlord. If a tenant files for bankruptcy, we cannot evict the tenant solely because of such bankruptcy. A court, however, may authorize the tenant to reject and terminate its lease with us. In such a case, our claim against the tenant for unpaid future rent would be subject to a statutory cap that might be substantially less than the remaining rent owed under the lease. In any event, it is highly unlikely that a bankrupt tenant would pay in full amounts it owes us under a lease. In other circumstances, where a tenant's financial condition has become impaired, we have sometimes agreed to partially or wholly terminate the lease in advance of the termination date in consideration for a lease termination fee that is less than the agreed rental amount. Without regard to the manner in which a lease termination occurs, we are likely to incur additional costs in the form of tenant improvements and leasing commissions in our efforts to lease the space to a new tenant, as well as likely lower rental rates reflective of declines in market rents.

New acquisitions may fail to perform as expected

Assuming we are able to obtain capital on commercially reasonable terms, we may acquire new office properties. Newly acquired properties may fail to perform as expected. Inaccurate assumptions regarding future rental or occupancy rates could result in overly optimistic estimates of future revenues. Similarly, we may underestimate future operating expenses or the costs necessary to bring an acquired property up to standards established for its intended market position.

Contingent or unknown liabilities acquired in acquisitions, mergers or similar transactions could require us to make substantial payments

The properties we purchase from time to time may be acquired subject to liabilities and without any recourse with respect to liabilities, whether known or unknown. As a result, if liabilities were asserted against us based upon any of those properties, we may incur substantial and unexpected costs. Unknown liabilities with respect to properties acquired might include:

- liabilities for clean-up or remediation of environmental conditions;
- claims of tenants, vendors or other persons dealing with the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by us in the context of a merger or the former owners of the properties.

Competition for acquisitions or disposition of properties could adversely affect us

We expect other major real estate investors with significant capital to compete with us for attractive investment opportunities. These competitors include publicly traded REITs, private REITs, investment banking firms, domestic or non-domestic institutional investors and private institutional investment funds, some of whom may enjoy a lower cost of capital and therefore, a competitive advantage. This competition could increase prices for office properties. We face similar competition with other property owners in our efforts to dispose of assets, which may result in lower sales prices. Any such increase in prices for acquired office properties or decrease in prices for properties to be sold by us could impair our growth prospects or reduce our available capital. Furthermore, our ability to redeploy capital arising from our disposition activities into investments in our core markets depends on our ability to effectively compete for attractive investment opportunities.

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Our investment in property development may be more costly than anticipated

We intend to continue to develop and redevelop office properties where we believe market conditions warrant. Our development and construction activities may include the following risks:

- we may incur construction costs for a development project which exceed our original estimates due to increased material, labor or other costs; this, in turn, could make completion of the project uneconomical because we may not be able to increase rents to compensate for the increase in construction costs;
- we may be unable to obtain, or face delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorizations, which could result in increased costs and could require us to abandon our activities entirely with respect to a project;
- we may abandon development opportunities after we begin to explore them and as a result we may fail to recover expenses already incurred;
- we may expend funds on and devote management time to projects which we do not complete;
- we may be unable to complete construction and leasing of a property on schedule, resulting in increased debt service expense and construction or renovation costs;
- we may lease developed properties at below expected rental rates; and
- occupancy rates and rents at newly completed properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in our investment not being profitable.

Because real estate investments are illiquid, we may not be able to sell properties when appropriate

Real estate investments generally cannot be sold quickly. In addition, there are limitations under the federal income tax laws applicable to REITs and tax protection agreements that we have entered into in connection with the acquisition of a significant percentage of our properties that may limit our ability to sell our assets or require certain tax free transaction structures. As a result, we may not be able to liquidate our portfolio promptly in response to economic or other conditions.

Various factors limit our ability to dispose of assets

Our ability to dispose of assets may be limited by constraints on our ability to utilize disposition proceeds to make acquisitions on financially attractive terms and the requirement that we take additional impairment charges on certain assets. More specifically, we are required to distribute or pay tax on all capital gains generated from the sale of assets. In addition, we have tax protection agreements which require that we reimburse certain of EOP Partnership's limited partners for taxes incurred in connection with the sale of certain of our properties. As a result, we are motivated to structure the sale of these assets as tax-free exchanges. To accomplish this we must identify attractive re-investment opportunities. Recently, while capital market conditions have been favorable for dispositions, investment yields on acquisitions have been less attractive due to the abundant capital inflows into the real estate sector. In addition, if we elect to sell a property we may incur an impairment charge to the extent we determine that the sum of the property's future cash flow plus eventual disposition proceeds is likely to be less than the property's recorded carrying value. These considerations impact our decision of whether or not to market for sale certain of our assets.

Certain perils could adversely affect our business

Significant portions of our properties are located in California and Washington, which are high risk geographical areas for earthquakes. Significant portions of our properties are also located in New York, Washington, D.C. and other major urban areas which could be the target of future terrorist acts. In addition, we have properties that are located in coastal counties or in Florida which can be susceptible to wind or flood damage. Depending upon its magnitude, an earthquake, hurricane or terrorist act could severely damage one

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or more of our properties, which would adversely affect our business. As described more fully below, we maintain earthquake, terrorism, wind and flood insurance for our properties and the resulting business interruption. However, any earthquake, wind, flood or terrorist peril, whether or not insured, could have an adverse effect on our results of operations and financial condition.

Some potential losses, including losses arising from earthquakes and terrorist acts, may not be covered by insurance

We carry insurance on our properties with respect to specified catastrophic events, as summarized in the table below:

<u>Type of Insurance Coverage</u>	<u>Our Loss Exposure/Deductible</u>	<u>Third-Party Coverage Limitation</u>
Property damage and business interruption (a)	\$50 million per occurrence and \$75 million annual aggregate exposure (which includes amounts paid for earthquake loss), plus \$1 million per occurrence deductible	\$1.0 billion per occurrence(c)
Earthquake(a)(b)	\$75 million per occurrence and annual aggregate exposure (which includes amounts paid for property damage and business interruption loss), plus \$1 million per occurrence deductible	\$325 million in the aggregate per year(c)
Acts of terrorism(d)	\$4.9 million per occurrence deductible (plus 10% of the remainder of each and every loss with a maximum per occurrence exposure of \$37.4 million which includes the \$4.9 million deductible); however, TRIEA provides that if the aggregate industry loss as a result of any such foreign terrorism occurrence is less than \$50 million (\$100 million in 2007), we are responsible for 100% of such loss. Our intent is to insure such amounts in excess of \$50 million in 2007.	\$825 million per occurrence(e)

- a) We retain up to \$75 million annual aggregate loss throughout the portfolio. In the event of a loss in excess of the per occurrence or annual aggregate amount, the third-party insurance carriers would be obligated to cover the losses up to the stated coverage amounts in the table above.
- b) The amount of the third party insurance relating to earthquakes is based on maximum probable loss studies performed by independent third parties. The maximum annual aggregate payment amount for earthquake loss is \$325 million, inclusive of our loss exposure of \$75 million plus \$1 million per occurrence deductible. There can be no assurance that the actual losses suffered in the event of an earthquake would not exceed the amount of such insurance coverage.
- c) These amounts include our loss exposure/deductible amount.
- d) This coverage includes nuclear, chemical and biological events under the Terrorism Risk Insurance Act of 2002 ("TRIA"). This coverage does not apply to non-TRIA events (which are terrorism events that are not committed by a foreigner or a foreign country). We maintain separate insurance with a \$325 million annual aggregate limit subject to a deductible of \$1 million for non-TRIA events. This separate coverage for non-TRIA events excludes nuclear, biological and chemical events.

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TRIA established the Terrorism Risk Insurance Program ("TRIP") to mandate that insurance carriers offer insurance covering physical damage from terrorist incidents certified by the U.S. government as foreign terrorist acts. Under TRIP, the federal government shares in the risk of loss associated with certain future terrorist acts. TRIA was extended for two years under the Terrorism Risk Insurance Extension Act ("TRIEA"), which established new requirements and expires on December 31, 2007. TRIEA created a new program trigger for any certified act of terrorism occurring after March 31, 2006 that prohibits payment of federal compensation unless the aggregate industry insured losses resulting from that act of terrorism exceed \$50 million for 2006 and \$100 million for 2007. The trigger for federal reimbursement through March 31, 2006 is \$5 million, rather than \$50 million. The full interim guidelines established by the U.S. Treasury Department explaining these and other new requirements are available at www.treas.gov/trip. There can be no assurance that TRIEA will be further extended. Should such legislation not be extended, the premiums and scope of coverages for this program could be adversely affected.

e) This amount is in excess of our deductible amounts.

Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. Nevertheless, we might remain obligated for any mortgage debt or other financial obligations related to the property. It is also possible that third-party insurance carriers will not be able to maintain reinsurance sufficient to cover any losses that may be incurred.

In addition, if any of our properties were to experience a catastrophic loss that was insured, it could still seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Also, due to inflation, changes in codes and ordinances, environmental considerations and other factors, it may not be feasible to use insurance proceeds to replace a building after it has been damaged or destroyed.

As a further matter, we also have to renew our policies every year (and in some cases every three years) and negotiate acceptable terms for coverage, exposing us to the volatility of the insurance markets, including the possibility of rate increases or decrease in available coverage.

Increases in taxes and regulatory compliance costs, including compliance with the Americans with Disabilities Act, may reduce our net income

Our properties are subject to increases in real estate taxes. Since we generally are not able to pass all real estate tax increases through to our tenants, we may incur significant increases in our operating expenses.

Our properties are also subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements including those mandated by the U.S. Environmental Protection Agency and the U.S. Occupational Safety and Health Administration. The EPA and OSHA are increasingly involved in indoor air quality standards, especially with respect to asbestos, mold and medical waste. Some trade associations, such as the Building Owners and Managers Association and the National Fire Protection Association, publish standards that are adopted by government authorities. These include standards relating to life, safety and fire protection systems published by the NFPA. Failure to comply with these requirements could result in the imposition of fines by governmental authorities or awards of damages to private litigants. In addition, we cannot provide any assurance that these requirements will not be changed or that new requirements will not be imposed that would require significant unanticipated expenditures by us and could have an adverse effect on our results of operations.

Under the Americans with Disabilities Act of 1990 and various state and local laws, all public accommodations and commercial facilities must meet certain federal requirements related to access and use by disabled persons. Compliance with these requirements could involve removal of structural barriers from certain disabled persons' entrances. Other federal, state and local laws may require modifications to or restrict further renovations of our properties with respect to such means of access. Although we believe that our properties are substantially in compliance with present requirements, noncompliance with the ADA or related laws or regulations could result in the imposition of fines by government authorities or in the award to private

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litigants of damages against us. Costs such as these, as well as the general costs of compliance with these laws or regulations, may also adversely affect our results of operations.

Environmental problems are possible and can be costly

Federal, state and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances or petroleum product releases at that property or at impacted neighboring properties. If unidentified environmental problems arise, we may have to make substantial payments. These adverse effects could arise because:

- the owner or operator may have to pay a governmental entity or third parties for property damage and for investigation and clean-up costs incurred by these parties in connection with the contamination;
- environmental laws typically impose clean-up responsibility and liability without regard to whether the owner or operator knew about or caused the presence of the contaminants;
- even if more than one person may have been responsible for the contamination, each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred; and
- third parties, such as neighboring property owners, may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating or migrating from that site.

Environmental laws also govern the presence, maintenance and removal of asbestos. These laws require that owners or operators of buildings containing asbestos:

- properly manage and maintain the asbestos;
- notify and/or train those who may come into contact with asbestos, such as tenants, visitors and employees; and
- undertake special precautions, including removal or other abatement, if asbestos would be disturbed during renovation or demolition of a building.

These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements. Moreover, third parties may seek recovery from owners or operators for personal injuries associated with exposure to asbestos fibers.

As a result, our properties may be subject to material environmental liabilities. In addition, no assurances can be given that (a) future laws, ordinances or regulations will not impose any material environmental liability, (b) the current environmental condition of our properties has not been, or will not be affected by tenants and occupants of our properties, by the condition of other properties in the vicinity of our properties, or by third parties unrelated to us or (c) our limited insurance that we maintain with respect to environmental matters will cover all possible losses.

We may not control the decisions of joint ventures or partnerships in which we have an interest

From time to time we invest in joint ventures or partnerships in which we do not hold a controlling interest. These investments involve risks that are not present with assets in which we own a controlling interest, including:

- the possibility that our co-venturers or partners might at any time have economic or other business interests or goals that are inconsistent with our business interests or goals;
- the possibility that our co-venturers or partners may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives (including actions that may be inconsistent with Equity Office's REIT status);
- the possibility that our co-venturers or partners may have different objectives from us regarding the appropriate timing and pricing of any sale or refinancing of properties; and

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- the possibility that our co-venturers or partners might become bankrupt or insolvent.

Even when we have a controlling interest, certain major decisions may require partner approval.

We also have joint venture and partnership agreements that contain buy-sell clauses that could require us to buy or sell our interest at a time we do not deem favorable for financial or other reasons, including the availability of cash at such time and the impact of tax consequences resulting from any sale. There is no limitation under our organizational documents as to the amount of available funds that we may invest in joint ventures or partnerships.

Scheduled debt payments could adversely affect us, including as a result of refinancing risk and foreclosure risk

Our business is subject to risks normally associated with debt financing. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity or debt capital, our cash flow may not be sufficient in all years to repay all maturing debt. If prevailing interest rates or other factors at the time of refinancing, such as the possible reluctance of lenders to make commercial real estate loans or if our debt is no longer rated investment grade by the rating agencies, result in higher interest rates, it would adversely affect our ability to service our debt and make distributions to our securityholders and our results of operations and financial condition may suffer. In addition, if we are unable to refinance our indebtedness on acceptable terms, or at all, events or conditions that may adversely affect our results of operations or financial condition would also include the following:

- we may need to dispose of one or more of our properties upon disadvantageous terms;
- if we mortgage property to secure payment of indebtedness and are unable to meet mortgage payments, the mortgagee could foreclose upon such property or appoint a receiver to receive an assignment of our rents and leases; and
- foreclosures upon mortgaged property could create taxable income without accompanying cash proceeds and, therefore, hinder our ability to meet the REIT distribution requirements of the Internal Revenue Code.

Neither the limited partnership agreement of EOP Partnership nor the governing documents of Equity Office limit the amount or the percentage of indebtedness that we may incur. Accordingly, we may incur substantial additional amounts of secured and unsecured debt, increasing the related risks arising from our indebtedness.

We are obligated to comply with financial covenants in our debt agreements that could restrict our range of operating activities

The mortgages on our properties contain customary negative covenants, including limitations on our ability, without the prior consent of the lender, to further mortgage the property, to enter into new leases outside of stipulated guidelines or to materially modify existing leases. In addition, our credit facilities contain customary requirements, including the requirement that we limit indebtedness to no more than a given percentage of total asset value as defined. Other restrictions include limitations on the amount of secured debt to total assets, a minimum fixed charge coverage ratio and a maximum unsecured debt to unencumbered assets ratio. The indentures under which our senior unsecured debt have been issued contain financial and operating covenants, including coverage ratios and limitations on the borrower's ability to incur secured and unsecured debt.

These covenants reduce our flexibility in conducting our operations and create a risk of default on our debt if we cannot continue to satisfy them. Further, if we were to breach certain of our debt covenants, our lenders could require us to repay the debt immediately, and, if the debt is secured, could take possession of the property securing the loan. If any other lender declared its loan due and payable as a result of a default, the holders of our senior unsecured debt, along with the lenders under our credit facility, might be able to require

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that those debts be paid immediately. As a result, any default under our debt covenants under any indebtedness could create a risk of default on other material components of our debt.

Our leverage could limit our ability to obtain additional financing and have other adverse effects

Our debt to market capitalization ratio, which we calculate as total debt as a percentage of total debt plus the liquidation value of preferred shares and the market value of Equity Office outstanding common shares and our outstanding units owned by third parties, was 48.9% as of December 31, 2005, compared to 48.4% as of December 31, 2004. Our leverage could have important consequences to our securityholders, including affecting our ability to obtain additional financing in the future for working capital, capital improvements, acquisitions, development of other general corporate purposes (including distributions to security holders) and making us more vulnerable to a downturn in business or the economy generally. In addition, as a result of the financial and operating covenants described above, our leverage could reduce our flexibility in conducting our business and planning for, or reacting to, changes in our business and in the real estate industry.

The indentures pursuant to which we have issued a substantial portion of our unsecured debt contain various covenants which restrict our ability to increase leverage. Among other things, this may limit our ability to utilize leverage to increase the compounded annual rate of growth of our per share funds from operations.

Rising interest rates or a downgrade in credit ratings could adversely affect our cash flow

Advances under certain of our credit facilities bear interest at a variable rate. We also, from time to time, enter into interest rate swap agreements effectively converting fixed-rate debt into variable rate debt. We may borrow additional money with variable interest rates in the future. Although we may enter into hedging agreements to limit our exposure to rising interest rates as we determine to be appropriate and cost effective, increases in interest rates, or the loss of the benefits of hedging agreements, would increase our interest expense.

Moody's, Standard & Poor's and Fitch provide credit ratings on our unsecured notes and preferred stock. In July 2004, Moody's downgraded our credit ratings from Baa1 to Baa2 with a stable outlook. In December 2005, Standard & Poor's and Fitch downgraded our credit ratings from BBB+ to BBB. As a result of these downgrades, the interest rate on our term loan facility increased 10 basis points to LIBOR plus 55 basis points and the interest rate on our revolving credit facility increased 12.5 basis points to LIBOR plus 60 basis points plus a facility fee of 20 basis points. In addition, the interest rate associated with any future financings may be impacted or we may not be able to borrow more funds if our credit ratings decline. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating. Further downgrades in our credit rating, or the loss of an investment grade rating, could have a material adverse impact on our cost of new financing and our ability to borrow funds.

Our hedging arrangements involve risks

As noted above, we may use interest rate hedging agreements to manage our exposure to interest rate volatility. However, these arrangements may expose us to additional risks. Although our interest rate risk management policy establishes minimum credit ratings for counterparties, this does not eliminate the risk that a counterparty may fail to honor its obligations. Developing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. In addition, hedging agreements may involve costs, such as transaction fees or breakage costs, if we terminate them. Any failure by us to effectively manage our exposure to interest rate risk through hedging agreements or otherwise, and any costs associated with hedging arrangements, could adversely affect our results of operations or financial condition.

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In order to maintain Equity Office's REIT status, we may need to borrow funds on a short-term basis during unfavorable market conditions

In order to maintain Equity Office's REIT status, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements, even if the then prevailing market conditions are not favorable for these borrowings. To qualify as a REIT, Equity Office generally must distribute to its shareholders at least 90% of its taxable net income each year, excluding capital gains. In addition, it will be subject to a 4% nondeductible excise tax on the amount, if any, by which dividends paid by it in any calendar year are less than the sum of 85% of its ordinary income, 95% of its capital gain net income and 100% of its undistributed income from prior years. We may need short-term debt to fund requirements, or the effect of non-deductible capital improvements, the creation of reserves or required debt or amortization payments.

Provisions of Maryland law and our declaration of trust and bylaws could inhibit changes in control

Maryland law and Equity Office's declaration of trust and bylaws contain a number of provisions that may have the effect of discouraging transactions that involve an actual or threatened change in control. As a result, holders of our securities may not receive premiums or other increases in value of our securities that may be associated with any such actual or threatened change in control.

These provisions include:

- *Removal of trustees* — Under Equity Office's declaration of trust, subject to the rights of one or more classes or series of preferred shares to elect one or more trustees, a trustee may be removed at any time, but only with cause, at a meeting of the shareholders by the affirmative vote of the holders of not less than a majority of the shares then outstanding and entitled to vote generally in the election of trustees.
- *Unsolicited takeover provisions of Maryland law* — Maryland law provides protection for Maryland REITs against unsolicited takeovers by protecting the board of trustees with regard to actions taken in a takeover context. Maryland law provides that the duties of trustees will not require them to (a) accept, recommend or respond to any proposal by a person seeking to acquire control, (b) authorize the REIT to redeem any rights under, modify or render inapplicable a shareholder rights plan, (c) make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act, or (d) act or fail to act solely because of the effect the act or failure to act may have on an acquisition or potential acquisition of control or the amount or type of consideration that may be offered or paid to shareholders in an acquisition. Maryland law also establishes a presumption that an act of a trustee satisfies the required standard of care. In addition, an act of a trustee relating to or affecting an acquisition or a potential acquisition of control is not subject under Maryland law to a higher duty or greater scrutiny than is applied to any other act of a trustee. Maryland law also provides that the duty of a trustee is only enforceable by the REIT or in the right of the REIT. A shareholder suit to enforce the duty of a trustee, therefore, can only be brought by or in the right of Equity Office.
- *Call of special meetings of shareholders* — Equity Office's bylaws provide that special meetings of shareholders may be called only by the chairman of the board, the president, one-third of the trustees or by the holders of shares entitled to cast not less than a majority of all the votes entitled to be cast at the meeting. This provision limits the ability of shareholders to call special meetings.
- *Advance notice provisions for shareholder nominations and shareholder new business proposals* — Equity Office's bylaws require advance written notice for shareholders to nominate a trustee or bring other business before a meeting of shareholders. This provision limits the ability of shareholders to make nominations for trustees or introduce other proposals that are not timely received for consideration at a meeting.
- *Board authority to issue preferred shares without shareholder approval* — the Equity Office board of trustees is authorized to issue preferred shares having a preference as to dividends or liquidation over

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the common shares without shareholder approval. The issuance of preferred shares could adversely affect the voting power of the holders of Equity Office's common shares and could be used to discourage, delay or prevent a change in control of Equity Office.

- *Two-thirds shareholder vote required to approve many amendments to the declaration of trust* — Under Maryland law and Equity Office's declaration of trust, the trustees, by a two-thirds vote, may at any time amend the declaration of trust solely to enable Equity Office to qualify as a REIT under the Internal Revenue Code or as a real estate investment trust under Maryland law, without action by Equity Office's shareholders. Equity Office's board of trustees also may amend the declaration of trust to set the terms of one or more series of preferred shares without action by holders of Equity Office common shares. Other amendments to the declaration of trust must first be declared advisable by the board of trustees and thereafter must be approved by shareholders by the affirmative vote of not less than two-thirds of all votes entitled to be cast, or, in the case of amendments to the declaration of trust in connection with mergers and other specified business combinations or that involve an increase or decrease in the number of authorized common shares or preferred shares, not less than a majority of all votes entitled to be cast. The two-thirds shareholder vote requirement for many amendments to the declaration of trust may make amendments to the declaration of trust that shareholders believe desirable more difficult to effect.
- *Exclusive authority of board to amend bylaws, except for specified amendments* — Equity Office's bylaws provide that the power to amend, repeal or adopt new bylaws is vested exclusively with the board of trustees, except that any amendments by the board of trustees to the bylaw provisions relating to meetings of shareholders, the size of the board, and the requirement that at least two-thirds of the trustees must be persons who are not executive officers of Equity Office or persons affiliated with Mr. Zell or his affiliates are subject to the approval of shareholders by vote of a majority of the votes cast. These provisions may make more difficult bylaw amendments that shareholders may believe are desirable.
- *Business combination with interested shareholders* — The Maryland Business Combination Act provides that, unless exempted, a Maryland REIT may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, issuances of shares and other specified transactions, with an "interested shareholder" or its affiliates, for five years after the most recent date on which the interested shareholder became an interested shareholder and thereafter unless specified criteria are met. Equity Office's board of trustees has elected by resolution to exempt from the provisions of the Maryland Business Combination Act any business combination with any person. Equity Office's board of trustees may, however, repeal this election in whole or in part at any time and cause us to become subject to these provisions in the future, except with respect to a securityholder who became an interested shareholder in connection with our formation in July 1997.
- *Other constituencies* — Maryland law expressly codifies the authority of a Maryland REIT to include in its charter a provision that allows the board of trustees to consider the effect of a potential acquisition of control on shareholders, employees, suppliers, customers, creditors and communities in which offices or other establishments of the trust are located. Equity Office's declaration of trust does not include a provision of this type. Maryland law also provides, however, that the inclusion or omission of this type of provision in the declaration of trust of a Maryland REIT does not create an inference concerning factors that may be considered by the board of trustees regarding a potential acquisition of control. This law may allow the Equity Office board of trustees to reject an acquisition proposal even though the proposal was in the best interests of our unitholders.

Equity Office has share ownership limits for REIT tax purposes

Primarily to facilitate maintenance of its REIT qualification, Equity Office's declaration of trust generally prohibits ownership by any single shareholder of more than 9.9%, in value or number of shares, whichever is more restrictive, of any class or series of its outstanding shares. This is referred to as the "ownership limit." The federal tax laws include complex stock ownership and attribution rules that apply in

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determining whether a shareholder exceeds the ownership limit. These rules may cause a shareholder to be treated as owning the shares that are actually owned by others, including family members and entities in which a shareholder has an ownership interest. Equity Office's declaration of trust permits, and in some cases requires, the board of trustees to waive or modify the ownership limit, if the board of trustees is satisfied that the waiver or modification will not jeopardize its REIT qualification. In addition, the declaration of trust allows the board of trustees to modify the ownership limits applicable to series of preferred shares issued in business combination transactions. Absent a modification or waiver, shares acquired or held in violation of the ownership limit will be transferred to a trust for the exclusive benefit of a designated charitable beneficiary, and the shareholder's rights to distributions and to vote would terminate. Also, the ownership limit could delay or prevent a change in control that is opposed by the board of trustees and, therefore, could adversely affect our securityholders' ability to realize a premium over the then-prevailing market price for their securities.

The Equity Office declaration of trust also includes an additional ownership limit designed to help it remain qualified as a "domestically controlled REIT" for federal income tax purposes. This ownership limit prevents any person from acquiring its shares if the acquisition by that person would cause 43% or more of the fair market value of its issued and outstanding shares to be owned, directly or indirectly, by non-U.S. persons. The ownership limit does not apply to any acquisition of its preferred shares that were outstanding as of June 19, 2000, or to common shares issued upon conversion of any of these preferred shares.

We are dependent on key personnel

We depend on the efforts of Samuel Zell, Equity Office chairman of the board, and Equity Office's executive officers, particularly Richard D. Kincaid, Equity Office's president and chief executive officer. If they were to resign or were unable to serve, our operations could be adversely affected. Equity Office does not have employment agreements with Mr. Zell or any of its executive officers, including Mr. Kincaid.

Holders of units do not have voting rights

Ownership of units does not entitle the holders to vote for the members of the board of trustees of Equity Office or other Equity Office corporate transactions. As a result, unitholders are dependent upon the exercise of voting rights by the holders of Equity Office common shares with regard to these important matters.

Changes in market conditions could adversely affect the market value of our securities

The value of our Units is tied to the value of Equity Office common shares. As with other publicly traded equity securities, the market value of Equity Office's securities depends on various market conditions which may change from time to time. Among the market conditions that may affect the market value of the securities are the following:

- the extent of investor interest in Equity Office;
- the general reputation of REITs and the attractiveness of Equity Office equity securities (including anticipated levels of distribution) in comparison to other equity securities, including securities issued by other real estate-based companies;
- our financial performance, credit rating and the perceived attractiveness of our portfolio of assets; and
- general stock and bond market conditions.

We believe the market value of Equity Office's common shares is based primarily upon the market's perception of our growth potential and our current and potential future earnings and cash available for distribution. Consequently, Equity Office's common shares may trade at prices that are higher or lower than

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the net asset value per common share. If our future earnings or cash available for distribution is less than expected, it is likely that the market price of our securities will diminish.

Market interest rates may have an effect on the value of our debt and equity securities

One of the factors that investors consider important in deciding whether to buy or sell preferred shares or debt securities of a REIT is the distribution rate on the REIT's shares or the coupon on its debt securities, considered as a percentage of the price of those shares or debt securities, relative to market interest rates. If market interest rates increase, prospective purchasers of REIT shares or debt securities may expect higher distribution rate or coupon. Higher market interest rates would not, however, result in more funds for us to distribute or use to make debt payments. To the contrary, higher market interest rates would likely increase our borrowing costs and potentially decrease our funds available for distribution or debt service. Thus, higher market interest rates could cause the market value of our preferred equity and debt securities to go down. Higher market interest rates could also cause the market value of our common equity to go down.

The number of shares available for future sale could adversely affect the market value of our securities

As part of its initial public offering in 1997 and since then Equity Office has completed transactions where Units were issued to owners of properties we acquired. Common shares issuable in exchange for units may be sold in the public securities markets over time pursuant to registration rights we granted to these investors. Additional common shares including those reserved under the Equity Office employee benefit and other incentive plans, including share options, may also be sold in the market at some time in the future. Future sales of Equity Office common shares in the market, whether in the form of primary or secondary offerings could adversely affect the price of our securities. We cannot predict the effect which the perception in the market that such sales may occur will have on the market value of our securities.

We are dependent on external sources of capital for future growth

To qualify as a REIT, Equity Office must distribute to its shareholders each year at least 90% of its net taxable income, excluding any net capital gain. Because of this distribution requirement, it is not likely that we will be able to fund all future capital needs, including for acquisitions and developments, from income from operations. Therefore, we will have to rely on third-party sources of capital, which may or may not be available on favorable terms or at all. Our access to third-party sources of capital depends on a number of things, including the market's perception of Equity Office's growth potential and our current and potential future earnings. To the extent we seek to meet our capital needs through additional equity offerings, that may result in substantial dilution of our unitholders' interests, and additional debt financing may substantially increase our leverage.

If Equity Office fails to qualify as a REIT, its shareholders and our unitholders would be adversely affected

Equity Office believes that it has qualified for taxation as a REIT for federal income tax purposes since 1997. Equity Office currently plans to continue to meet the requirements for taxation as a REIT but we cannot assure its shareholders and our unitholders that it will qualify as a REIT. As a REIT, Equity Office is subject to various restrictions and requirements, including restrictions and requirements on its income, assets and activities. Many of these REIT requirements are highly technical and complex. The determination that Equity Office is a REIT requires an analysis of various factual matters and circumstances, some of which may not be totally within our control, including, in limited circumstances, factual matters and circumstances relating to some corporations that were operating as REITs at the time we acquired them or actions taken by our joint venture partners. For example, to qualify as a REIT, at least 95% of Equity Office's gross income must come from sources that are itemized in the REIT tax laws and we are prohibited from owning specified amounts of debt or equity securities of some issuers. The fact that Equity Office holds its assets through EOP Partnership and its subsidiaries and our ongoing reliance on factual determinations, such as determinations related to the valuation of our assets, further complicate the application of the REIT requirements for Equity Office. Even a technical or inadvertent mistake could jeopardize Equity Office's REIT status. Furthermore, Congress and the

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Internal Revenue Service might make changes to the tax laws and regulations, and the courts might issue new rulings that make it more difficult, or impossible, for Equity Office to remain qualified as a REIT.

If Equity Office fails to qualify as a REIT for federal income tax purposes, it would be subject to federal and state income tax at regular corporate rates. As a regular, non-REIT corporation, Equity Office would not be allowed to take a deduction for distributions to shareholders in computing its taxable income. Also, unless the Internal Revenue Service were to grant Equity Office relief under statutory provisions, it would remain disqualified as a REIT for the four years following the year it first failed to qualify. If Equity Office failed to qualify as a REIT, it would have to pay significant income taxes, which would reduce its net earnings available for investment or distribution to its shareholders and our unitholders. This would likely have a significant adverse effect on the value of its securities. In addition, Equity Office would no longer be required to make any distributions to its shareholders.

We intend to qualify as a partnership, but cannot guarantee that we will qualify

We intend to qualify as a partnership for federal income tax purposes. However, we will be treated as a corporation for federal income tax purposes if we are a "publicly traded partnership", unless at least 90% of our income is qualifying income as defined in the Internal Revenue Code. We take the position that we are not a publicly traded partnership and we believe that we would have sufficient qualifying income, which includes real property rents and other passive income, to ensure that we would be taxed as a partnership even if we were a publicly traded partnership. If we were to be taxed as a corporation, we would incur substantial tax liabilities, Equity Office would fail to qualify as a REIT for tax purposes and Equity Office's and our ability to raise additional capital would be impaired. We cannot, however, offer any assurance that we are or will be taxed as a partnership.

The federal income tax rules applicable to partnerships are complex. In general, a unitholder must currently report its allocable share of EOP Partnership's taxable income whether or not the taxable income is distributed to the unitholder. EOP Partnership believes, but cannot guarantee, that its method for allocating its taxable income among its unitholders will not be subject to challenge by the Internal Revenue Service ("IRS"). If, however, such a challenge were to be made and succeed, then the IRS could reallocate EOP Partnership's income among the unitholders retroactively. EOP Partnership computes its taxable income based on accounting methods and tax elections determined by Equity Office as the general partner and these may be different from those of the unitholder or adverse to the unitholder's interests. In addition, because Equity Office is the "tax matters partner" of the EOP Partnership, Equity Office will generally control any tax-related administrative or court proceedings and the unitholder will be bound by the outcome of these proceedings whether or not the unitholder participates.

We and Equity Office pay some taxes

Even if Equity Office qualifies as a REIT for federal income tax purposes, it is required to pay some federal, state and local taxes on its income and property. For example, Equity Office will be subject to income tax to the extent it distributes less than 100% of its REIT taxable income. Equity Office also may have to pay some state or local income taxes because not all states and localities treat REITs and partnerships the same as they are treated for federal income tax purposes. Several corporate subsidiaries of Equity Office have elected to be treated as "taxable REIT subsidiaries" of Equity Office for federal income tax purposes since January 1, 2001. A taxable REIT subsidiary is a fully taxable corporation and is limited in its ability to deduct interest payments in excess of a certain amount made to Equity Office. In addition, Equity Office will be subject to a 100% penalty tax on some payments that we receive if the economic arrangements among our tenants, our taxable REIT subsidiaries and Equity Office are not comparable to similar arrangements among unrelated parties. To the extent that Equity Office or any taxable REIT subsidiary is required to pay federal, state or local taxes, we will have less cash available for distribution to its shareholders and our unitholders.

Table of Contents**Tax Consequences**

The material U.S. federal income tax consequences relating to the taxation of Equity Office as a REIT and the ownership and disposition of Equity Office common shares are described in Equity Office's Form 8-K dated March 9, 2006.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

For information regarding encumbrances on our properties see Item 7, Item 8 and Item 15 — Schedule III. Included in the Total Office Portfolio are 82 properties in which the title-holding entities generally have leasehold interests, rather than fee ownership, and two properties in which we are the lender of mortgage debt encumbering the property.

Office Property Statistics

The following table sets forth certain data related to the Total Office Portfolio and the Effective Office Portfolio as of December 31, 2005. Our 17 core markets are presented from greatest to least based on our property net operating income from continuing operations for the fourth quarter 2005.

Markets	Number of Buildings	Rentable Square Feet	Total Office Portfolio		Effective Office Portfolio			
			Percentage of Total Office Portfolio Rentable Square Feet	Percent Occupied	Rentable Square Feet	Percentage of Effective Office Portfolio Rentable Square Feet	Percent Occupied	Percent of Property Net Operating Income(a)
1 Boston	52	12,680,201	11.4%	91.3%	11,606,811	11.4%	91.9%	14.0%
2 San Francisco	89	10,232,402	9.2%	87.2%	9,424,616	9.3%	87.7%	10.9%
3 Los Angeles	48	8,410,339	7.5%	93.7%	7,280,010	7.2%	93.3%	9.5%
4 New York	7	5,367,110	4.8%	96.1%	5,361,421	5.3%	96.1%	8.9%
5 San Jose	81	6,485,614	5.8%	85.1%	6,485,614	6.4%	85.1%	8.8%
6 Seattle	54	9,989,686	9.0%	92.7%	8,776,587	8.6%	93.2%	7.6%
7 Washington, D.C.	28	6,619,080	5.9%	94.2%	6,096,783	6.0%	93.8%	7.6%
8 Chicago	33	11,700,945	10.5%	89.8%	10,442,233	10.3%	89.9%	6.9%
9 Atlanta	40	7,733,425	6.9%	85.6%	7,028,021	6.9%	84.5%	4.6%
10 Orange County	32	6,034,128	5.4%	94.1%	6,034,128	5.9%	94.1%	4.5%
11 Portland	45	4,164,536	3.7%	91.9%	4,164,536	4.1%	91.9%	2.8%
12 Denver	15	4,553,765	4.1%	89.6%	4,553,765	4.5%	89.6%	2.4%
13 Sacramento	37	2,612,655	2.3%	94.1%	2,410,265	2.4%	93.8%	2.0%
14 Stamford	7	1,654,296	1.5%	92.7%	1,654,296	1.6%	92.7%	1.9%
15 Oakland/ East Bay	12	2,606,341	2.3%	92.9%	2,330,856	2.3%	92.2%	1.9%
16 Austin	15	2,856,424	2.6%	80.3%	2,856,424	2.8%	80.3%	1.9%
17 San Diego	17	2,365,977	2.1%	87.3%	1,874,702	1.8%	86.0%	1.7%
18-22 All others	10	5,442,129	4.9%	89.0%	3,327,223	3.3%	88.0%	2.2%
Total/ Weighted Average	622	111,509,053	100.0%	90.5%	101,708,291	100.0%	90.4%	100.0%

- (a) Property Net Operating Income represents fourth quarter 2005 property net operating income from continuing operations (see Item 8 — Note 19) for wholly-owned properties and our share of consolidated and unconsolidated joint ventures owned and in service as of December 31, 2005.

Table of Contents**Total Office Portfolio Lease Expiration Schedule**

The following schedule is based upon the contractual termination date of the leases, without regard to any early lease termination and/or renewal options. Some of the leases are subject to various forms of lease termination options exercisable by tenants. Although it is not possible to predict which tenants are likely to exercise these options, it has been our experience that the greatest incidence of lease termination option exercises occur in markets in which the contractual rents under the lease are significantly higher than current market rents. As a result of these lease termination options, renewal options and other factors, such as tenant insolvencies, the actual termination dates of some portion of our leases may vary from the contractual expiration date set forth in the schedule.

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Total Office Portfolio Lease Expiration Schedule(a)
December 31, 2005

	Year of Expiration												
	2006(b)	2007	2008	2009	2010	2011	2012	2013	2014	2015	Thereafter(f)	Total	
(Dollars in thousands except per square foot amounts)													
Boston													
Square Feet(c)	901,117	1,173,913	1,593,288	1,328,450	1,557,965	454,243	1,095,733	1,425,253	727,593	272,129			
% Square Feet (d)	7.1%	9.3%	12.6%	10.5%	12.3%	3.6%	8.6%	11.2%	5.7%	2.1%	1,045,935	11,575	
Annualized Rent for occupied square feet (e)											8.2%		
Annualized Rent per occupied square foot (e)	\$ 26,598	\$ 49,148	\$ 57,753	\$ 49,655	\$ 59,448	\$ 18,622	\$ 45,837	\$ 59,454	\$ 26,310	\$ 9,057	\$ 41,630	\$ 443,380	
	\$ 29.52	\$ 41.87	\$ 36.25	\$ 37.38	\$ 38.16	\$ 41.00	\$ 41.83	\$ 41.71	\$ 36.16	\$ 33.28	\$ 39.80	\$ 38.16	
San Francisco													
Square Feet(c)	1,124,597	1,278,854	1,411,339	913,602	1,864,124	792,332	432,610	378,371	223,717	296,682			
% Square Feet (d)	11.0%	12.5%	13.8%	8.9%	18.2%	7.7%	4.2%	3.7%	2.2%	2.9%	210,420	8,926,000	
Annualized Rent for occupied square feet (e)											2.1%	8	
Annualized Rent per occupied square foot (e)	\$ 46,398	\$ 43,899	\$ 52,739	\$ 29,202	\$ 74,656	\$ 29,972	\$ 11,847	\$ 11,611	\$ 5,828	\$ 8,863	\$ 13,429	\$ 328,400	
	\$ 41.26	\$ 34.33	\$ 37.37	\$ 31.96	\$ 40.05	\$ 37.83	\$ 27.38	\$ 30.69	\$ 26.05	\$ 29.87	\$ 63.82	\$ 36.16	
Los Angeles													
Square Feet(c)	977,496	1,247,266	710,237	777,186	1,032,915	592,383	709,563	536,497	358,284	665,656			
% Square Feet (d)	11.6%	14.8%	8.4%	9.2%	12.3%	7.0%	8.4%	6.4%	4.3%	7.9%	276,498	7,883,900	
Annualized Rent for occupied square feet (e)											3.3%	93	
Annualized Rent per occupied square foot (e)	\$ 35,414	\$ 40,802	\$ 21,910	\$ 21,590	\$ 31,617	\$ 23,136	\$ 23,476	\$ 18,110	\$ 12,621	\$ 20,973	\$ 8,473	\$ 258,100	
	\$ 36.23	\$ 32.71	\$ 30.85	\$ 27.78	\$ 30.61	\$ 39.06	\$ 33.09	\$ 33.76	\$ 35.23	\$ 31.51	\$ 30.64	\$ 32.16	
New York													
Square Feet(c)	151,627	179,343	189,327	1,261,182	322,130	437,637	476,698	445,167	114,544	84,009			
% Square Feet (d)	2.8%	3.3%	3.5%	23.5%	6.0%	8.2%	8.9%	8.3%	2.1%	1.6%	1,493,740	5,155,400	
Annualized Rent for occupied square feet (e)											27.8%	96	
Annualized Rent per occupied square foot (e)	\$ 9,096	\$ 9,199	\$ 7,732	\$ 74,582	\$ 14,910	\$ 23,841	\$ 21,225	\$ 24,120	\$ 6,953	\$ 5,950	\$ 73,703	\$ 271,300	
	\$ 59.99	\$ 51.29	\$ 40.84	\$ 59.14	\$ 46.29	\$ 54.48	\$ 44.53	\$ 54.18	\$ 60.70	\$ 70.83	\$ 49.34	\$ 52.00	
San Jose													
Square Feet(c)	710,862	775,129	534,178	497,635	962,887	742,373	488,279	129,475	331,712	193,645			
% Square Feet (d)	11.0%	12.0%	8.2%	7.7%	14.8%	11.4%	7.5%	2.0%	5.1%	3.0%	154,992	5,521,100	
Annualized Rent for occupied square feet (e)											2.4%	85	
Annualized Rent per occupied square foot (e)	\$ 23,881	\$ 25,482	\$ 12,935	\$ 14,081	\$ 36,835	\$ 42,932	\$ 32,566	\$ 4,079	\$ 6,512	\$ 6,558	\$ 4,245	\$ 210,100	

Rent per occupied square foot (e)	\$	33.59	\$	32.87	\$	24.21	\$	28.30	\$	38.25	\$	57.83	\$	66.70	\$	31.50	\$	19.63	\$	33.87	\$	27.39	\$	3
Seattle																								
Square Feet(c)		981,173		936,770		1,237,815		1,396,313		1,446,993		561,694		509,514		574,545		429,886		520,697		665,318		9,260
% Square Feet (d)		9.8%		9.4%		12.4%		14.0%		14.5%		5.6%		5.1%		5.8%		4.3%		5.2%		6.7%		
Annualized Rent for occupied square feet (e)	\$	26,725	\$	25,230	\$	30,996	\$	33,838	\$	38,314	\$	13,364	\$	14,119	\$	14,936	\$	9,408	\$	10,445	\$	17,161	\$	234,
Annualized Rent per occupied square foot (e)	\$	27.24	\$	26.93	\$	25.04	\$	24.23	\$	26.48	\$	23.79	\$	27.71	\$	26.00	\$	21.88	\$	20.06	\$	25.79	\$	25

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Total Office Portfolio Lease Expiration Schedule(a)
December 31, 2005 — (Continued)

	Year of Expiration												
	2006(b)	2007	2008	2009	2010	2011	2012	2013	2014	2015	Thereafter(f)	Totals	
Washington, D.C.	(Dollars in thousands except per square foot amounts)												
Square Feet(c)	489,312	808,707	933,734	662,220	445,135	810,318	359,189	250,325	672,696	556,174			
% Square Feet(d)	7.4%	12.2%	14.1%	10.0%	6.7%	12.2%	5.4%	3.8%	10.2%	8.4%			
Annualized Rent for occupied square feet(e)	\$ 15,364	\$ 23,249	\$ 31,946	\$ 20,944	\$ 17,630	\$ 26,803	\$ 11,390	\$ 8,967	\$ 23,226	\$ 20,837	\$ 9,630	\$ 209,986	
Annualized Rent per occupied square foot(e)	\$ 31.40	\$ 28.75	\$ 34.21	\$ 31.63	\$ 39.61	\$ 33.08	\$ 31.71	\$ 35.82	\$ 34.53	\$ 37.46	\$ 38.89	\$ 33.68	
Chicago													
Square Feet(c)	1,525,507	929,832	1,394,482	983,602	1,242,517	624,781	738,544	534,629	538,670	1,321,163			
% Square Feet(d)	13.0%	7.9%	11.9%	8.4%	10.6%	5.3%	6.3%	4.6%	4.6%	11.3%			
Annualized Rent for occupied square feet(e)	\$ 41,845	\$ 23,826	\$ 41,391	\$ 28,751	\$ 32,878	\$ 15,988	\$ 20,553	\$ 14,590	\$ 13,900	\$ 34,067	\$ 13,880	\$ 281,669	
Annualized Rent per occupied square foot(e)	\$ 27.43	\$ 25.62	\$ 29.68	\$ 29.23	\$ 26.46	\$ 25.59	\$ 27.83	\$ 27.29	\$ 25.80	\$ 25.79	\$ 20.62	\$ 26.81	
Atlanta													
Square Feet(c)	1,322,323	693,987	699,975	779,051	1,397,137	456,169	210,650	272,422	338,366	181,853			
% Square Feet(d)	17.1%	9.0%	9.1%	10.1%	18.1%	5.9%	2.7%	3.5%	4.4%	2.4%			
Annualized Rent for occupied square feet(e)	\$ 37,172	\$ 15,576	\$ 13,998	\$ 22,102	\$ 36,313	\$ 9,809	\$ 3,847	\$ 5,729	\$ 6,338	\$ 3,516	\$ 5,171	\$ 159,571	
Annualized Rent per occupied square foot(e)	\$ 28.11	\$ 22.44	\$ 20.00	\$ 28.37	\$ 25.99	\$ 21.50	\$ 18.26	\$ 21.03	\$ 18.73	\$ 19.33	\$ 19.37	\$ 24.11	
Orange County													
Square Feet(c)	970,209	983,647	1,548,406	573,502	677,621	432,283	248,030	170,745	6,536	21,146			
% Square Feet(d)	16.1%	16.3%	25.7%	9.5%	11.2%	7.2%	4.1%	2.8%	0.1%	0.4%			
Annualized Rent for occupied square feet(e)	\$ 26,241	\$ 25,114	\$ 36,531	\$ 14,523	\$ 16,182	\$ 9,797	\$ 6,519	\$ 4,068	\$ 165	\$ 520	\$ 444	\$ 140,104	
Annualized Rent per occupied square foot(e)	\$ 27.05	\$ 25.53	\$ 23.59	\$ 25.32	\$ 23.88	\$ 22.66	\$ 26.28	\$ 23.83	\$ 25.24	\$ 24.59	\$ 9.51	\$ 24.67	
Portland													
Square Feet(c)	491,417	606,095	430,980	604,117	802,776	344,599	113,042	58,517	62,113	61,688			
% Square Feet(d)	11.8%	14.6%	10.3%	14.5%	19.3%	8.3%	2.7%	1.4%	1.5%	1.5%			
Annualized Rent for occupied square feet(e)	\$ 11,551	\$ 14,734	\$ 9,265	\$ 12,755	\$ 15,348	\$ 7,971	\$ 2,333	\$ 1,491	\$ 1,559	\$ 1,295	\$ 4,335	\$ 82,637	
Annualized Rent per occupied square foot(e)	\$ 23.51	\$ 24.31	\$ 21.50	\$ 21.11	\$ 19.12	\$ 23.13	\$ 20.64	\$ 25.48	\$ 25.10	\$ 20.99	\$ 17.24	\$ 21.59	
Denver													
Square Feet(c)	587,911	607,280	607,624	688,442	402,051	292,518	419,764	77,953	221,986	56,783			
% Square Feet(d)	12.9%	13.3%	13.3%	15.1%	8.8%	6.4%	9.2%	1.7%	4.9%	1.2%			
Annualized Rent for occupied square feet(e)	\$ 12,341	\$ 11,617	\$ 11,222	\$ 15,681	\$ 7,685	\$ 5,158	\$ 7,191	\$ 1,472	\$ 5,112	\$ 677	\$ 1,437	\$ 79,593	
Annualized Rent per occupied square foot(e)	\$ 20.99	\$ 19.13	\$ 18.47	\$ 22.78	\$ 19.11	\$ 17.63	\$ 17.13	\$ 18.88	\$ 23.03	\$ 11.92	\$ 12.38	\$ 19.52	

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Total Office Portfolio Lease Expiration Schedule(a)
December 31, 2005 — (Continued)

	Year of Expiration												
	2006(b)	2007	2008	2009	2010	2011	2012	2013	2014	2015	Thereafter(f)	Totals	
(Dollars in thousands except per square foot amounts)													
Sacramento													
Square Feet(c)	385,987	534,481	314,406	539,010	253,083	164,180	120,112	25,835	26,448	24,719	71,170	2,459,431	
% Square Feet(d)	14.8%	20.5%	12.0%	20.6%	9.7%	6.3%	4.6%	1.0%	1.0%	0.9%	2.7%	94.1%	
Annualized Rent for occupied square feet(e)	\$ 10,117	\$ 14,814	\$ 8,006	\$ 13,752	\$ 6,956	\$ 4,583	\$ 3,605	\$ 720	\$ 678	\$ 789	\$ 770	\$ 64,790	
Annualized Rent per occupied square foot(e)	\$ 26.21	\$ 27.72	\$ 25.46	\$ 25.51	\$ 27.49	\$ 27.91	\$ 30.01	\$ 27.87	\$ 25.64	\$ 31.92	\$ 10.82	\$ 26.34	
Stamford													
Square Feet(c)	347,699	127,956	208,819	204,543	202,322	248,198	103,236	33,318	44,765	—	12,916	1,533,772	
% Square Feet(d)	21.0%	7.7%	12.6%	12.4%	12.2%	15.0%	6.2%	2.0%	2.7%	0.0%	0.8%	92.7%	
Annualized Rent for occupied square feet(e)	\$ 11,020	\$ 4,717	\$ 7,148	\$ 6,962	\$ 6,830	\$ 8,485	\$ 3,379	\$ 1,011	\$ 1,368	\$ 0	\$ 0	\$ 50,920	
Annualized Rent per occupied square foot(e)	\$ 31.69	\$ 36.86	\$ 34.23	\$ 34.04	\$ 33.76	\$ 34.19	\$ 32.73	\$ 30.34	\$ 30.56	\$ 0.00	\$ 0.00	\$ 33.20	
Oakland/East Bay													
Square Feet(c)	388,484	291,343	475,527	381,256	310,442	143,047	24,073	368,749	13,500	7,066	18,390	2,421,877	
% Square Feet(d)	14.9%	11.2%	18.2%	14.6%	11.9%	5.5%	0.9%	14.1%	0.5%	0.3%	0.7%	92.9%	
Annualized Rent for occupied square feet(e)	\$ 13,303	\$ 8,824	\$ 12,670	\$ 9,142	\$ 7,998	\$ 4,995	\$ 678	\$ 12,509	\$ 348	\$ 137	\$ 0	\$ 70,604	
Annualized Rent per occupied square foot(e)	\$ 34.24	\$ 30.29	\$ 26.64	\$ 23.98	\$ 25.76	\$ 34.92	\$ 28.16	\$ 33.92	\$ 25.78	\$ 19.39	\$ 0.00	\$ 29.15	
Austin													
Square Feet(c)	197,469	215,161	299,114	140,055	317,998	137,610	326,644	90,726	218,298	144,419	206,614	2,294,108	
% Square Feet(d)	6.9%	7.5%	10.5%	4.9%	11.1%	4.8%	11.4%	3.2%	7.6%	5.1%	7.2%	80.3%	
Annualized Rent for occupied square feet(e)	\$ 4,716	\$ 5,363	\$ 7,473	\$ 3,256	\$ 6,455	\$ 3,410	\$ 9,456	\$ 1,859	\$ 5,797	\$ 2,790	\$ 5,673	\$ 56,248	
Annualized Rent per occupied square foot(e)	\$ 23.88	\$ 24.93	\$ 24.98	\$ 23.25	\$ 20.30	\$ 24.78	\$ 28.95	\$ 20.49	\$ 26.56	\$ 19.32	\$ 27.46	\$ 24.52	
San Diego													
Square Feet(c)	376,184	155,157	251,580	479,250	421,652	186,827	16,431	—	10,052	130,647	36,602	2,064,382	
% Square Feet(d)	15.9%	6.6%	10.6%	20.3%	17.8%	7.9%	0.7%	0.0%	0.4%	5.5%	1.5%	87.3%	
Annualized Rent for occupied square feet(e)	\$ 13,373	\$ 5,063	\$ 8,551	\$ 12,726	\$ 12,500	\$ 5,934	\$ 519	\$ 0	\$ 382	\$ 3,398	\$ 192	\$ 62,638	
Annualized Rent per occupied square foot(e)	\$ 35.55	\$ 32.63	\$ 33.99	\$ 26.55	\$ 29.65	\$ 31.76	\$ 31.59	\$ 0.00	\$ 38.00	\$ 26.01	\$ 5.25	\$ 30.34	
All Others													
Square Feet(c)	968,887	378,800	931,323	710,996	451,404	147,109	246,438	77,833	141,857	163,503	625,450	4,843,600	
% Square Feet(d)	17.8%	7.0%	17.1%	13.1%	8.3%	2.7%	4.5%	1.4%	2.6%	3.0%	11.5%	89.0%	
Annualized Rent for occupied square feet(e)	\$ 15,456	\$ 7,814	\$ 19,701	\$ 17,327	\$ 10,362	\$ 3,790	\$ 6,070	\$ 1,791	\$ 3,573	\$ 3,623	\$ 18,531	\$ 108,038	
Annualized Rent per occupied square foot(e)	\$ 15.95	\$ 20.63	\$ 21.15	\$ 24.37	\$ 22.96	\$ 25.76	\$ 24.63	\$ 23.01	\$ 25.19	\$ 22.16	\$ 29.63	\$ 22.31	

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**Total Office Portfolio Lease Expiration Schedule(a)
December 31, 2005 — (Continued)**

	Year of Expiration										
	2006(b)	2007	2008	2009	2010	2011	2012	2013	2014	2015	Thereafter(f)
<i>(Dollars in thousands except per square foot amounts)</i>											
Total Portfolio											
Square Feet(c)	12,898,261	11,923,721	13,772,154	12,920,412	14,111,152	7,568,301	6,638,550	5,450,360	4,481,023	4,701,979	6,420,161
% Square Feet(d)	11.6%	10.7%	12.4%	11.6%	12.7%	6.8%	6.0%	4.9%	4.0%	4.2%	5.8%
Annualized Rent for occupied square feet(e)	\$ 380,611	\$ 354,471	\$ 391,967	\$ 400,869	\$ 432,917	\$ 258,590	\$ 224,610	\$ 186,517	\$ 130,078	\$ 133,495	\$ 218,705
Rent per occupied square foot(e)	\$ 29.51	\$ 29.73	\$ 28.46	\$ 31.03	\$ 30.68	\$ 34.17	\$ 33.83	\$ 34.22	\$ 29.03	\$ 28.39	\$ 34.07

- (a) Based on the contractual termination date of the lease without regard to any early lease termination and/or renewal options.
- (b) 640,783 square feet expiring in 2006 is from month to month leases.
- (c) Represents occupied square feet of expiring leases as of the reporting date.
- (d) Represents occupied square feet of expiring leases in the market divided by the market's total building square feet.
- (e) Annualized rent is the monthly contractual rent as of the reporting date under existing leases in which occupancy has commenced as of the reporting date multiplied by 12 months ("Annualized Rent"). If the current rent payable is \$0 (as a result of rent abatements), then the first monthly rent payment due under the existing lease is used to calculate annualized rent. The contractual rent amounts include total base rent and estimated expense reimbursements from tenants as of the reporting date before any adjustments for rent abatements and contractual increases or decreases in rent subsequent to December 31, 2005. Total rent abatements for leases in which occupancy has commenced as of the reporting date for the period from January 1, 2006 to December 31, 2006 are approximately \$30.8 million. We believe Annualized Rent is a useful measure because this information can be used for comparison to current market rents as published by various third party sources.
- (f) EOP management offices and owner-building use space totaling 796,991 square feet is included in square feet, however, the rent per square foot is \$0.

Table of Contents**Item 3. Legal Proceedings.**

We are not presently subject to material litigation nor, to our knowledge, is any material litigation threatened against us, other than routine actions for negligence and other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance or third party indemnifications and all of which collectively we do not expect to have a material adverse effect on our financial condition, results of operations, or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

There is no established public trading market for our Units. On February 28, 2006, there were approximately 455 holders of record. Equity Office's Common Shares are traded on the New York Stock Exchange ("NYSE") under the symbol "EOP". The high and low sales prices and closing sales prices on the NYSE and distributions for the Common Shares during 2005 and 2004 are set forth in the table below. We paid an equivalent distribution on our Units to the distributions paid by Equity Office on its Common Shares during each of the periods presented.

Year	Quarter	High	Low	Close	Distributions
2005	Fourth	\$33.17	\$28.20	\$30.33	\$ 0.50
	Third	\$35.79	\$31.31	\$32.71	\$ 0.50
	Second	\$34.39	\$30.00	\$33.10	\$ 0.50
	First	\$31.17	\$27.45	\$30.13	\$ 0.50
2004	Fourth	\$29.86	\$27.11	\$29.12	\$ 0.50
	Third	\$28.95	\$25.71	\$27.25	\$ 0.50
	Second	\$29.20	\$23.90	\$27.20	\$ 0.50
	First	\$30.39	\$27.81	\$28.89	\$ 0.50

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

The following table summarizes repurchases of our Units during the fourth quarter of 2005:

Period	Total Number of Units Purchased(a)	Average Price Paid per Unit	Total Number of Units Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Units that May Yet be Purchased Under the Plans or Programs
October 1 – 31	2,397,138	\$ 32.49	—	—
November 1 – 30	14,132,934	29.84	—	—
December 1 – 31	11,667,543	30.77	—	—
Fourth quarter 2005	28,197,615	\$ 30.45	—	—

- (a) The number of Units purchased is comprised of the redemption of Units held by our limited partners, excluding Equity Office. Units redeemed in exchange for Common Shares are not considered a repurchase and are, therefore, excluded from the table above. At any time on or after the first anniversary of the date of issuance, our limited partners have the right to require EOP Partnership to redeem their Units, subject to certain limitations. Equity Office, on behalf of and as the general partner of EOP Partnership, has the right to cause the redemption obligation to be satisfied by issuance of an equivalent number of Common Shares, or by a cash payment equal to the value of such Common Shares. Also included in the total number of Units purchased are Units redeemed in response to repurchases made by Equity Office, including repurchases of Equity Office Common Shares in the open market (a) as part of its Common Share Repurchase Program, (b) as part of its Supplemental Retirement Savings Plan, (c) to fund shares purchased under its 1997 Employee Share Purchase Plan and (d) to fund fees paid in Equity Office Common Shares to each of its non-employee trustees, except Mr. Zell, as well as Equity Office Common Shares surrendered to Equity Office to satisfy withholding obligations in connection with the vesting of restricted stock issued to employees.

Securities Authorized for Issuance Under Equity Compensation Plans

Information related to employee compensation plans is set forth in Item 8 — Note 22.

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Item 6. Selected Financial Data.

The following sets forth our selected consolidated financial and operating information on a historical basis. The selected financial data has been derived from our historical consolidated financial statements. The following information should be read together with our consolidated financial statements and notes thereto included in Item 8.

	For the years ended December 31,				
	2005	2004	2003	2002	2001(a)
	(Dollars in thousands, except per unit amounts)				
Selected Financial Data:					
Total revenues	\$ 3,000,589	\$ 2,874,032	\$ 2,825,820	\$ 2,889,715	\$ 2,585,550
Income from early lease terminations(b)	\$ 80,028	\$ 58,689	\$ 68,408	\$ 151,969	\$ 41,230
Property net operating income from continuing operations(c)	\$ 1,801,538	\$ 1,802,422	\$ 1,816,361	\$ 1,856,352	\$ 1,683,060
Income from continuing operations	\$ 204,801	\$ 265,558	\$ 504,755	\$ 531,744	\$ 475,962
Net gain on sales of real estate and provision for loss on assets held for sale(d)	\$ 21,026	\$ 27,160	\$ 168,126	\$ 18,354	\$ 81,662
Impairment(b)	\$ (219,003)	\$ (229,170)	\$ (7,500)	\$ —	\$ (135,220)
Cumulative effect of a change in accounting principle	\$ —	\$ (33,697)	\$ —	\$ —	\$ (1,142)
Net income	\$ 43,846	\$ 149,054	\$ 729,214	\$ 859,420	\$ 694,431
Net income available to unitholders	\$ 9,043	\$ 109,961	\$ 677,342	\$ 796,847	\$ 640,045
Funds from Operations available to unitholders plus assumed conversions(e)	\$ 608,330	\$ 931,687	\$ 1,289,547	\$ 1,520,268	\$ 1,190,174
Income from continuing operations per unit — diluted	\$ 0.38	\$ 0.50	\$ 1.00	\$ 1.00	\$ 1.02
Cumulative effect of a change in accounting principle per unit — diluted	\$ —	\$ (0.07)	\$ —	\$ —	\$ —
Net income available to unitholders per unit — diluted	\$ 0.02	\$ 0.24	\$ 1.50	\$ 1.70	\$ 1.55
Funds from Operations available to unitholders plus assumed conversions per unit — diluted (e)	\$ 1.35	\$ 2.07	\$ 2.80	\$ 3.18	\$ 2.83
Cash distributions declared per Unit	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 1.90
Balance Sheet Data (at end of year):					
Total assets	\$ 22,973,553	\$ 24,671,539	\$ 24,189,010	\$ 25,246,783	\$ 25,808,422
Mortgage debt net of any discounts and premiums	\$ 2,164,198	\$ 2,609,067	\$ 2,315,889	\$ 2,507,890	\$ 2,650,338
Unsecured notes net of any premiums and discounts	\$ 9,032,620	\$ 9,652,392	\$ 8,828,912	\$ 9,057,651	\$ 9,093,987
Lines of credit	\$ 1,631,000	\$ 548,000	\$ 334,000	\$ 205,700	\$ 244,300
Mandatorily Redeemable Preferred Units	\$ 299,497	\$ 299,500	\$ 299,500	\$ 299,500	\$ 299,500

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	For the years ended December 31,				
	2005	2004	2003	2002	2001(a)
	(Dollars in thousands, except per unit amounts)				
Other Data (at end of year):					
Effective Office Portfolio:					
Number of office properties	622	698	684	734	774
Rentable square feet of office properties (in millions)	101.7	115.3	113.6	119.6	122.0
Occupancy of office properties	90.4%	87.5%	85.9%	88.4%	91.6%

- (a) On July 2, 2001, we completed our acquisition by merger of Spieker Properties, L.P. ("Spieker") at a cost of \$7.2 billion. As a result, we acquired 391 office properties containing 28.3 million square feet and 98 industrial properties containing 10.1 million square feet.
- (b) These amounts include continuing and discontinued operations and also include our share of unconsolidated joint ventures.
- (c) These amounts represent property operating revenues (which include rental revenues, tenant reimbursements, parking and other operating revenues) less property operating expenses (which include real estate taxes, insurance, repairs and maintenance and property operating expense). See Item 8 — Note 19 on why we present property net operating income from continuing operations.
- (d) These amounts include continuing and discontinued operations after allocations to minority interest partners and also include our share of unconsolidated joint ventures.
- (e) Refer to Item 7 for information regarding why we present funds from operations and for a reconciliation of this non-GAAP financial measure to net income.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.****Overview**

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read together with our consolidated financial statements and notes thereto and is organized as follows:

I. Executive Summary (pages 35 – 39)

A description of our business as well as key factors and trends that affect our business.

II. Results of Operations (pages 39 – 48)

Period-to-period comparisons of our results of operations for the years ended 2003 through 2005.

III. Liquidity and Capital Resources (pages 48 – 61)

A discussion of our liquidity and capital resources, including distributions to our unitholders, contractual obligations, debt financing, market risk, equity securities, capital improvements, tenant improvements and leasing costs, developments, cash flows and additional items for 2005.

IV. Critical Accounting Policies and Estimates (pages 61 – 65)

A review of the critical accounting policies and estimates that affect the financial statements and impact of new accounting standards.

V. Funds From Operations (pages 65 – 67)

A reconciliation of this non-GAAP financial measure to net income, the most directly comparable GAAP measure.

I. Executive Summary

Equity Office Properties Trust ("Equity Office"), our general partner, is the largest owner and manager of office properties in the United States. The use of the word "we", "us", or "our" in this Form 10-K refers to Equity Office and its subsidiaries, including EOP Operating Limited Partnership ("EOP Partnership"), except where the context otherwise requires. We own, manage, lease and develop office properties. At December 31, 2005, we had a national office portfolio comprised of whole or partial interests in 622 office buildings located in 16 states and the District of Columbia. We own premium quality office buildings. Based on our Effective Office Portfolio, which consists of 101.7 million square feet, 39.4% and 60.6% of our properties are located in central business districts and suburban locations, respectively. At December 31, 2005, we owned buildings in 22 markets and 101 submarkets, including our 17 core markets which are:

Atlanta	New York	San Francisco
Austin	Oakland/East Bay	San Jose
Boston	Orange County	Seattle
Chicago	Portland	Stamford
Denver	Sacramento	Washington, D.C.
Los Angeles	San Diego	

We believe our core markets generally offer the following: a strong opportunity for us to be a market leader; an ability to leverage our operating platform; sufficient market size for us to achieve scale and grow; an intellectual and cultural infrastructure; and a highly educated workforce.

We operate our properties using a portfolio-based model as compared to many real estate owners who operate on a property-by-property basis. We believe this approach allows us to operate efficiently while

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providing a high level of service to our tenants. Our market concentrations enable us to provide a wide range of office solutions to tenants who have local, regional and national office space needs.

The following factors affect our business and are important to consider when reviewing our financial and operating results:

- the economic environment;
- our investment activity and our use of the proceeds from dispositions;
- our liquidity and capital resources; and
- our operating and leasing results.

Economic Environment

The business of owning, operating and leasing Class A office properties in the United States was impacted by a prolonged economic downturn, which commenced in the first quarter of 2001 and stabilized around the fourth quarter of 2003. During this time, office market fundamentals deteriorated, rental rates declined and vacancies increased in our major markets. We also experienced a significantly higher level of unscheduled early lease terminations during this period. As a result of the deterioration in our market fundamentals, revenues declined as our leases expired and were either not renewed or were renewed at lower rental rates. Also, we incurred and continue to incur significant tenant improvement and leasing costs to maintain and restore occupancy which was lost during this cycle.

We typically experience long business cycles because our average lease term is five to six years. Accordingly, when the fundamentals of the office business decline, our operating results do not deteriorate as quickly as would be the case if, for example, we re-priced a substantial percentage of our product "to market" on an annual basis. Conversely, when office business fundamentals improve, our operating results tend to improve more slowly. Further, we have chosen to diversify our portfolio risk by operating in a large number of office markets whose conditions may not deteriorate or recover in tandem. As a result of these factors, our operating results are likely to lag those of the general economy as well as certain of our competitors whose operations are concentrated in fewer markets.

At the present time, the office market fundamentals are generally improving. Office job growth, a principal driver of demand for our properties, has been positive for over two years and is forecasted to increase in 2006 in most of our core markets. In the past two years, substantially all of our core markets have experienced positive net absorption. Occupancy has increased in most of our core markets, and we expect it to further increase in 2006. More recently, rental rates have begun to trend upwards in most of our core markets. Another market variable that impacts the supply of office space is construction activity. Although construction activity in several of our markets has recently increased, such activity remains below historical levels. Within the last twelve months, construction costs have increased and this may reduce the likelihood of new competitive supply in a number of our markets. Although these market trends are expected to positively impact our operating results over time, our results will continue to be negatively impacted by any decrease in rental rates on new and renewal leases as compared to expiring leases (commonly referred to as rent roll down) and the effect of increased expenses and higher tenant improvement and leasing costs.

Investment Activity

Over the last two years we took steps to reposition our portfolio for long-term growth. We took advantage of a favorable asset-sale environment and during 2005 sold on an Effective Office Portfolio basis \$2.7 billion of assets comprising 17.8 million square feet and several vacant land parcels. Our portfolio is comprised of premium quality office buildings in diverse geographic markets. More than 96% of our assets (based on total square feet) are currently located in our 17 core markets. We expect to continue to take advantage of market opportunities and expect to engage in further sales based on market conditions. When we sell assets in the future, we may recognize gains, losses or impairment charges.

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For the year ended December 31, 2005, our net income and FFO were negatively impacted by asset sales. Our income from continuing operations has decreased, and we recorded \$228.0 million of gains on assets sold and \$426.0 million of non-cash charges on assets sold and assets we intend to sell. See Item 8 — Note 5 for more information regarding the gains, losses and impairment charges recognized.

We expect to continue, as market conditions permit, to invest a portion of the capital from our dispositions into acquisitions in targeted growth markets. While the current commercial real estate market has provided us with favorable valuations for assets we have sold, this same market has also created an extremely competitive atmosphere for acquiring properties. The properties we acquired in 2005 (\$1.4 billion comprising 5.1 million square feet), including redevelopment properties, had average occupancy rates lower than our weighted average portfolio occupancy. We acquired these properties, however, because they were attractively priced, located in our core markets and have growth potential that we believe will make them accretive to our earnings over the long term.

We may also continue to use disposition proceeds, in part, for reinvestments in our existing portfolio, debt repayments, distributions to our unitholders, and repurchases of Equity Office's common shares ("Common Share") and EOP Partnership Units ("Units"). During 2005, we used proceeds from asset sales together with other sources of capital to fund \$1.4 billion in acquisitions, to repay \$1.7 billion of mortgage debt and unsecured notes (with a weighted average effective interest rate of 6.87%), to repurchase 31.0 million Common Shares (at an average purchase price of \$30.68 per share for \$950.7 million under the open market repurchase program) and to redeem 1.8 million Units (at an average purchase price of \$30.67 per Unit for \$56.5 million). We also obtained \$769.1 million of mortgage debt on new and existing properties (including our share of unconsolidated properties of \$131.8 million) with a weighted average effective interest rate of 5.43%. Although our overall debt levels remained relatively unchanged as of December 31, 2005 as compared to December 31, 2004, we were able to reduce our effective borrowing rate on a weighted average basis from 6.57% at December 31, 2004 to 6.51% at December 31, 2005.

As a result of this significant level of dispositions, we have experienced and may continue to experience earnings dilution. Ultimately, the amount and duration of this dilution will depend upon the manner in which we redeploy our capital over time. We believe the short-term earnings dilution is outweighed by our improved prospects for long-term growth.

Liquidity and Capital Resources

As discussed later in the Liquidity and Capital Resources section, for 2004 and 2005 our net cash flow provided by operating activities was insufficient to meet all of our cash requirements including capital improvements, tenant improvements and leasing costs as well as distributions to our unitholders. We anticipate that our 2006 annual Unit distribution, which is subject to quarterly approval by Equity Office's Board of Trustees, will be \$1.32 per unit, down from the 2005 annual distribution of \$2.00 per unit. Notwithstanding this reduction in the Unit distribution, we anticipate that if our net cash from operating activities and our cash requirements continue at these levels, a shortfall will continue in 2006, but at a lower level from 2005, and that we will cover the shortfall with proceeds primarily from financing activities and asset sales.

Operating and Leasing Results

Operating Results for 2005

As the economy and office markets recover, we have seen improvements in many of our markets. Although occupancy and rental rates on our new leases have gradually been improving, rental rates on new and renewal leases continue to be below those of expiring leases. We also repositioned our portfolio by disposing of \$2.7 billion of assets which reduced rental revenues and our net operating income and we recognized significant gains on properties sold and losses and impairments on properties sold and properties we intend to sell. Operating expenses and general and administrative expenses also increased primarily because of increased utility costs, increased repairs and maintenance costs, increases in payroll and severance expenses, consulting fees associated with the implementation of a new accounting system and a shared services center, and the

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costs incurred for damage to our properties in New Orleans from Hurricane Katrina. As a result, our net income available to unitholders in 2005 was \$9.0 million, or \$0.02 per diluted unit, down from \$110.0 million, or \$0.24 per diluted unit in 2004.

Leasing Results

Occupancy

Total square feet for leases under which tenants took occupancy during the years ended December 31, 2005 and 2004 was 21.2 million and 22.0 million, respectively. Our Effective Office Portfolio occupancy was 90.4% as of December 31, 2005, an increase from 87.5% at the end of 2004 and 85.9% at the end of 2003. Approximately half of the increase in occupancy since December 31, 2004 was due to leasing, and the balance from selling properties with low occupancy. We expect occupancy in early 2006 to decline slightly due to several large expiring leases, but to recover to the 91% to 92% range by year-end 2006.

Early Lease Terminations

We had 3.4 million square feet of early lease terminations during the year ended December 31, 2005, which compares to 3.9 million square feet in the year ended December 31, 2004. On a square footage basis, the number of early lease terminations declined as there were fewer early lease terminations in 2005 as a result of defaults as compared to 2004. We expect this trend to continue in 2006. Income from early lease terminations was slightly higher in 2005 than 2004 primarily because of one large termination fee in the first quarter of 2005.

Rental Rates

Rental rates on new leases declined during the years ended December 31, 2005 and 2004 by 14.5% and 16.3%, respectively (on a cash basis), when compared to rates on expiring and terminating leases. Market rents began a downward trend in 2001 as vacancy rates increased across the nation. While we have recently been able to increase rental rates in select areas, we expect it to take time for rental rates to improve across the portfolio since only a portion of our leases expire each year. We estimate that rental rates on our leases that are scheduled to expire in 2006 are 10% to 15% above current market. The decline in rents to current market levels adversely affects our rental revenues, and until market rental rates increase from their current levels to the level payable under expiring leases, which we believe may not occur until the latter part of 2007 or early 2008, in a majority of our markets, we expect rent roll down to continue to reduce our rental revenues.

Tenant Improvements and Leasing Costs

In order to retain tenants and obtain new tenants, we incur tenant improvement and leasing costs, which have been at historically high levels since 2003. Our costs for 2005 averaged \$20.24 per square foot, and we expect the costs for 2006 to be between \$21.50 and \$23.50 per square foot. These increasing costs are due to higher construction costs across the country. Also, the repositioning of our portfolio has resulted in a higher concentration of buildings in markets that require higher tenant improvement costs.

Table of Contents*Trends in Occupancy and Rental Rates for the Total Office Portfolio*

Below is a summary of leasing activity for tenants taking occupancy in the periods presented.

	For the years ended December 31,		
	2005	2004	2003
Office Property Data for Total Office Portfolio:			
Occupancy at end of year	90.5%	87.7%	86.3%
Gross square footage for tenants whose lease term commenced during the year	21,219,691	22,015,441	22,684,488
Weighted average annual rent per square foot for tenants whose lease term commenced during the year:			
GAAP basis(a,b)	\$26.60	\$24.10	\$25.68
Cash basis(b,c)	\$25.55	\$23.38	\$24.86
Gross square footage for expiring and terminated leases during the year	19,235,670	20,381,369	23,976,592
Weighted average annual rent per square foot for expiring and terminated leases during the year:			
GAAP basis(a)	\$29.01	\$27.14	\$28.14
Cash basis(c)	\$29.88	\$27.94	\$28.55
Change in weighted average annual rent per square foot between expiring and terminated leases and leases that commenced during the year:			
GAAP basis — change in annual rent per square foot	\$(2.41)	\$(3.04)	\$(2.46)
GAAP basis — percent change in annual rent per square foot	(8.3)%	(11.2)%	(8.7)%
Cash basis — change in annual rent per square foot	\$(4.33)	\$(4.56)	\$(3.69)
Cash basis — percent change in annual rent per square foot	(14.5)%	(16.3)%	(12.9)%

- (a) Based on the average annual base rent per square foot over the lease term and current estimated tenant reimbursements, if any.
- (b) Weighted average annual rent per square foot for new leases for tenants whose lease term commenced during the period may lag the market because leasing decisions typically are made one month to 12 or more months prior to taking occupancy.
- (c) Based on the monthly contractual rent when the lease commenced, expired or terminated multiplied by 12 months. For new and renewal leases, if the monthly contractual rent when the lease commenced is \$0 (as a result of rent abatements), then the rental rate represents the first monthly rent payment due multiplied by 12 months ("Annualized Cash Rent"). The contractual rent amounts include total base rent and estimated expense reimbursements from tenants before any adjustments for rent abatements and contractual increases or decreases in rent. We believe Annualized Cash Rent is a useful measure because this information can be used for comparison to current market rents as published by various third party sources.

II. Results of Operations*Period-to-Period Comparisons*

The financial results presented in the consolidated statements of operations show significant changes from period-to-period. Our period-to-period financial results may not be comparable because we acquire and dispose of properties on an ongoing basis. We have also consolidated properties (that we previously recorded under the equity method) as a result of the acquisition of our joint venture partners' interests. During 2005, we completed a significant amount of disposition activity which adversely impacted our financial results. The net income (loss) for properties sold and properties held for sale is included in Discontinued Operations. See

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Item 8 — Note 5 for more information, including the results of operations for the properties classified as Discontinued Operations.

Below is a summary of changes in our Total Office Portfolio and our Effective Office Portfolio:

	<u>Buildings</u>	<u>Square Feet</u>	
		<u>Total Office Portfolio</u>	<u>Effective Office Portfolio</u>
Properties owned as of:			
December 31, 2002	734	125,725,399	119,625,725
Acquisitions	2	829,293	923,879
Developments placed in service	5	1,218,215	989,307
Dispositions	(53)	(5,182,707)	(7,543,381)
Properties taken out of service(a)	(4)	(450,548)	(450,548)
Building remeasurements	—	115,273	96,135
December 31, 2003	684	122,254,925	113,641,117
Consolidation of SunAmerica Center	1	780,063	524,772
Acquisitions	27	3,315,232	3,104,028
Developments placed in service	2	298,689	298,689
Dispositions	(5)	(567,765)	(1,922,755)
Properties taken out of service(a)	(11)	(469,771)	(469,771)
Building remeasurements	—	101,872	103,663
December 31, 2004	698	125,713,245	115,279,743
Acquisitions	55	3,959,956	3,959,956
Developments placed in service	1	115,340	115,340
Dispositions	(131)	(18,275,376)	(17,644,205)
Properties taken out of service(a)	(1)	(61,825)	(61,825)
Building remeasurements	—	57,713	59,282
December 31, 2005	622	111,509,053	101,708,291

(a) Properties taken out of service represent office properties we are no longer attempting to lease and may be sold in the future or redeveloped.

As a result of the significant acquisition, disposition and consolidation activity, we have presented condensed consolidated results for properties owned for the comparable periods (the "Same Store Portfolio") as well as the condensed consolidated statements of operations (the "Total Company"). The Total Company results include the Same Store Portfolio as well as acquisitions, dispositions, consolidations and corporate level expenses.

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Comparison of the year ended December 31, 2005 to the year ended December 31, 2004

The table below represents selected operating information for the Total Company and for the Same Store Portfolio. The Same Store Portfolio consists of 498 consolidated office properties and 28 unconsolidated joint venture properties acquired or placed in service on or prior to January 1, 2004.

	Total Company				Same Store Portfolio			
	2005	2004	Change Favorable/ (Unfavorable)		2005	2004	Change Favorable/ (Unfavorable)	
			Amount	%			Amount	%
	(Dollars in thousands)							
Revenues:								
Property operating revenues	\$ 2,982,849	\$ 2,859,806	\$ 123,043	4.3%	\$ 2,686,357	\$ 2,670,325	\$ 16,032	0.6%
Fee income	17,740	14,226	3,514	24.7	—	—	—	—
Total revenues	<u>3,000,589</u>	<u>2,874,032</u>	<u>126,557</u>	<u>4.4</u>	<u>2,686,357</u>	<u>2,670,325</u>	<u>16,032</u>	<u>0.6</u>
Expenses:								
Depreciation and amortization	749,765	687,702	(62,063)	(9.0)	662,331	633,236	(29,095)	(4.6)
Real estate taxes	339,006	324,481	(14,525)	(4.5)	292,987	294,605	1,618	0.5
Insurance	59,567	29,521	(30,046)	(101.8)	56,241	27,163	(29,078)	(107.1)
Repairs and maintenance	340,904	312,928	(27,976)	(8.9)	315,192	291,207	(23,985)	(8.2)
Property operating	441,834	390,454	(51,380)	(13.2)	410,568	371,836	(38,732)	(10.4)
Ground rent	22,517	20,912	(1,605)	(7.7)	21,620	20,623	(997)	(4.8)
Corporate general and administrative(a)	66,536	52,242	(14,294)	(27.4)	—	—	—	—
Impairment	65,738	38,534	(27,204)	(70.6)	44,294	14,705	(29,589)	(201.2)
Total expenses	<u>2,085,867</u>	<u>1,856,774</u>	<u>(229,093)</u>	<u>(12.3)</u>	<u>1,803,233</u>	<u>1,653,375</u>	<u>(149,858)</u>	<u>(9.1)</u>
Operating income	<u>914,722</u>	<u>1,017,258</u>	<u>(102,536)</u>	<u>(10.1)</u>	<u>883,124</u>	<u>1,016,950</u>	<u>(133,826)</u>	<u>(13.2)</u>
Other income (expense):								
Interest and dividend income	15,896	8,041	7,855	97.7	5,005	3,132	1,873	59.8
Realized gain on sale of marketable securities	157	28,976	(28,819)	(99.5)	—	—	—	—
Interest expense(b)	(831,725)	(848,677)	16,952	2.0	(149,451)	(176,595)	27,144	15.4
Total other income (expense)	<u>(815,672)</u>	<u>(811,660)</u>	<u>(4,012)</u>	<u>(0.5)</u>	<u>(144,446)</u>	<u>(173,463)</u>	<u>29,017</u>	<u>16.7</u>
Income before income taxes, allocation to minority interests, income from investments in unconsolidated joint ventures and gain on sales of real estate	99,050	205,598	(106,548)	(51.8)	738,678	843,487	(104,809)	(12.4)
Income taxes	272	(1,981)	2,253	113.7	(373)	(325)	(48)	(14.8)
Minority interests:								
Partially owned properties	(9,825)	(10,264)	439	4.3	(9,825)	(10,263)	438	4.3
Income from investments in unconsolidated joint ventures	68,996	50,304	18,692	37.2	32,674	39,827	(7,153)	(18.0)
Gain on sales of real estate	46,308	21,901	24,407	111.4	—	—	—	—
Income from continuing operations	204,801	265,558	(60,757)	(22.9)	761,154	872,726	(111,572)	(12.8)
Discontinued operations	(160,955)	(82,807)	(78,148)	(94.4)	—	—	—	—
Income before cumulative effect of a change in accounting principle	43,846	182,751	(138,905)	(76.0)	—	—	—	—
Cumulative effect of a change in accounting principle	—	(33,697)	33,697	100.0	—	—	—	—
Net income	<u>\$ 43,846</u>	<u>\$ 149,054</u>	<u>\$ (105,208)</u>	<u>(70.6)%</u>	<u>\$ 761,154</u>	<u>\$ 872,726</u>	<u>\$ (111,572)</u>	<u>(12.8)%</u>
Selected Items from Continuing Operations:								
Property net operating income(c)	<u>\$ 1,801,538</u>	<u>\$ 1,802,422</u>	<u>\$ (884)</u>	<u>(0.0)%</u>	<u>\$ 1,611,369</u>	<u>\$ 1,685,514</u>	<u>\$ (74,145)</u>	<u>(4.4)%</u>
Property operating margin(c,d)	<u>60.4%</u>	<u>63.0%</u>	<u>(2.6)%</u>	<u>(2.6)%</u>	<u>60.0%</u>	<u>63.1%</u>	<u>(3.1)%</u>	<u>(3.1)%</u>
Deferred rental revenue	<u>\$ 57,232</u>	<u>\$ 73,104</u>	<u>\$ (15,872)</u>	<u>(21.7)%</u>	<u>\$ 36,118</u>	<u>\$ 65,355</u>	<u>\$ (29,237)</u>	<u>(44.7)%</u>
Income from early lease terminations	<u>\$ 78,757</u>	<u>\$ 48,056</u>	<u>\$ 30,701</u>	<u>63.9%</u>	<u>\$ 24,634</u>	<u>\$ 37,464</u>	<u>\$ (12,830)</u>	<u>(34.2)%</u>

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- (a) Corporate general and administrative expense is not allocated to the Same Store Portfolio because these expenses are not directly incurred in connection with any specific property.
- (b) Interest expense (including amortization of deferred financing costs and prepayment expenses) for the Same Store Portfolio represents interest expense on mortgage debt and does not include interest expense on the unsecured notes or the lines of credit.
- (c) Property net operating income consists of property operating revenues minus property operating expenses. Included in property operating revenues are rental revenue, tenant reimbursements, parking and other income, which includes income from early lease terminations. Included in property operating expenses are real estate taxes, insurance, repairs and maintenance and property operating expenses. See Item 8 — Note 19 for more information.
- (d) Property operating margin is determined by dividing property operating revenues less property operating expenses by property operating revenues.

Property Operating Revenues

Property operating revenues in the Same Store Portfolio increased primarily because of increased occupancy and an increase in tenant reimbursements (we recover a portion of increases in our operating expenses from our tenants). Same store occupancy increased from 89.4% at the end of 2004 to 91.2% at December 31, 2005. The increase was partially offset by a decrease in income from early lease terminations of \$12.8 million, \$4.3 million of rent loss in three buildings in New Orleans that were affected by Hurricane Katrina, and the effect of the rent roll down.

Property operating revenues in the Total Company increased primarily because of property acquisitions, consolidations and developments placed in service which accounted for \$160.2 million of the increase and the increases in the Same Store Portfolio, as explained above. This includes income from early lease terminations of which approximately \$53.2 million was received at one building from a tenant who terminated its lease. This increase in property operating revenues was partially offset by the effect of partial sales of properties in 2005 and 2004 (which are not classified as discontinued operations), which decreased property revenues by \$39.4 million.

Depreciation and Amortization

Depreciation and amortization expense in the Same Store Portfolio increased because of capital and tenant improvements placed in service since the beginning of the prior period as well as an increase in deferred leasing costs.

Depreciation and amortization expense in the Total Company increased because of property acquisitions, consolidations and developments placed in service which accounted for \$42.4 million of the increase and the increases in the Same Store Portfolio, as explained above. The increase was partially offset by the effect of partial sales of properties in 2005 and 2004 (which are not classified as discontinued operations), which decreased depreciation and amortization expense by \$8.8 million.

Real Estate Taxes

Real estate taxes in the Same Store Portfolio decreased slightly primarily due to property tax refunds for properties located in California, partially offset by increases in Boston, Chicago and other regions. We anticipate real estate taxes will continue to fluctuate based on changes in property assessments and tax rates.

Real estate taxes increased in 2005 in the Total Company because of property acquisitions, consolidations and developments placed in service, which accounted for \$19.0 million of the increase. The increase was partially offset by the effect of the partial sale of properties in 2005 and 2004 (which are not classified as discontinued operations), which decreased real estate tax expense by \$4.0 million, and the decrease in the Same Store Portfolio, as explained above.

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Insurance

Insurance expense for the Total Company and the Same Store Portfolio increased due to Hurricane Katrina damage to the three building Lakeway Center complex of \$31.5 million. The hurricane-related damage was higher than earlier projections due to increased costs related to clean-up, remediation and window repairs. See Item 8 — Notes 13 and 24 for more information.

Repairs and Maintenance

Repairs and maintenance expense increased in the Same Store Portfolio as a result of increased cleaning expense attributable to higher contractual rates and increased occupancy, higher payroll costs for building engineers and higher spending for major repairs. We increased our spending in repairs and maintenance as part of a program to maintain high levels of quality in our properties. Repairs and maintenance expense for 2006 is expected to continue at an increased level as a result of planned projects in 2006.

Repairs and maintenance expense increased in the Total Company because of property acquisitions, consolidations and developments placed in service, which accounted for \$12.3 million of the increase, and increases in the Same Store Portfolio, as explained above. This increase was partially offset by a decrease in repairs and maintenance expense of \$8.1 million as a result of the effect of partial sales of properties in 2005 and 2004 (which are not classified as discontinued operations).

Property Operating

Property operating expense increased for the Same Store Portfolio primarily due to an increase in utilities expense of \$19.7 million attributable to higher utility rates and increased occupancy, \$3.8 million of consulting fees and other costs associated with the implementation of a new accounting system and a shared services center, 2005 severance costs of \$8.7 million and increases in payroll expenses of \$8.0 million. We anticipate that utility costs will increase in the coming quarters when compared to historical costs if utility rates and the occupancy levels of our properties continue to increase. A portion of such expenses will be recoverable from tenants.

Property operating expenses in the Total Company increased because of property acquisitions, consolidations and developments placed in service which accounted for \$19.5 million of the increase and increases in the Same Store Portfolio, as explained above. This increase was partially offset by a decrease in property operating expenses of \$8.3 million as a result of the effect of partial sales of properties in 2005 and 2004 (which are not classified as discontinued operations).

Corporate General and Administrative Expenses

Corporate general and administrative expenses increased because of consulting fees, higher payroll expense and expenses related to restricted share awards and stock options.

Impairment

For a discussion of impairment refer to Item 8 — Note 5.

Interest and Dividend Income

Interest and dividend income increased in 2005 in the Total Company primarily due to larger balances in various notes receivable and investments, including escrow deposits.

Realized Gain on Sale of Marketable Securities

The gain in 2004 consisted of \$24.0 million from the settlement of forward-starting interest rate swaps and \$4.7 million from the sale of securities.

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Interest Expense

Interest expense in the Same Store Portfolio decreased because of mortgage debt repayments.

Interest expense for the Total Company decreased because of the repayment of higher interest rate debt with proceeds from asset sales and the issuance of new debt at lower interest rates. This decrease was partially offset by higher interest expense on variable rate debt and a decrease in capitalized interest expense due to a decrease in development activity (capitalized interest has the effect of reducing overall interest expense). As of December 31, 2005, 84% of our total debt was at a fixed interest rate.

Income from Investments in Unconsolidated Joint Ventures

Income from investments in unconsolidated joint ventures in the Same Store Portfolio decreased primarily because of a decrease in income from early lease terminations and the effect of rent roll down, partially offset by an increase in occupancy.

Income from investments in unconsolidated joint ventures for the Total Company increased primarily because of the \$26.5 million gain on sale of our interest in three properties, which occurred in 2005, partially offset by the decrease in the Same Store Portfolio as explained above.

Gain on Sales of Real Estate

The gain in 2005 for the Total Company of \$46.3 million primarily relates to the partial sale of our interests in two properties in San Francisco, California. The gain in 2004 for the Total Company relates to the sale of our 3% interest in a property located in Houston, Texas and the partial sale of two properties located in Philadelphia, Pennsylvania. In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets* ("FAS 144"), the net income from these properties that were partially sold, which includes the gain on sale, is not classified as discontinued operations because we maintain an ongoing involvement with the operation of these properties.

Discontinued Operations

Discontinued operations consists of properties we sold and also properties classified as held for sale. See Item 8 — Note 5 for additional information regarding discontinued operations.

Cumulative Effect of a Change in Accounting Principle

Under the provisions of Financial Accounting Standards Board Interpretation 46(R), *Consolidation of Variable Interest Entities*, an Interpretation of ARB No. 51, as revised ("FIN 46(R)"), we consolidated the assets, liabilities and results of operations of SunAmerica Center effective January 1, 2004, and recorded a cumulative effect of a change in accounting principle resulting in a loss of \$33.7 million. See Item 8 — Note 3.

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Comparison of the year ended December 31, 2004 to the year ended December 31, 2003

The table below represents selected operating information for the Total Company and for the Same Store Portfolio. The Same Store Portfolio consists of 622 consolidated office properties and 21 unconsolidated joint venture properties acquired or placed in service on or prior to January 1, 2003.

	Total Company				Same Store Portfolio			
	2004	2003	Change Favorable/ (Unfavorable)		2004	2003	Change Favorable/ (Unfavorable)	
			Amount	%			Amount	%
(Dollars in thousands)								
Revenues:								
Property operating revenues	\$ 2,859,806	\$ 2,809,959	\$ 49,847	1.8%	\$ 2,884,776	\$ 2,952,670	\$ (67,894)	(2.3)%
Fee income	14,226	15,861	(1,635)	(10.3)	—	—	—	—
Total revenues	<u>2,874,032</u>	<u>2,825,820</u>	<u>48,212</u>	<u>1.7</u>	<u>2,884,776</u>	<u>2,952,670</u>	<u>(67,894)</u>	<u>(2.3)</u>
Expenses:								
Depreciation and amortization	687,702	617,461	(70,241)	(11.4)	697,176	645,802	(51,374)	(8.0)
Real estate taxes	324,481	305,588	(18,893)	(6.2)	329,462	319,870	(9,592)	(3.0)
Insurance	29,521	19,846	(9,675)	(48.8)	33,429	24,818	(8,611)	(34.7)
Repairs and maintenance	312,928	297,677	(15,251)	(5.1)	319,347	312,385	(6,962)	(2.2)
Property operating	390,454	370,487	(19,967)	(5.4)	398,030	388,473	(9,557)	(2.5)
Ground rent	20,912	20,227	(685)	(3.4)	18,818	18,624	(194)	(1.0)
Corporate general and administrative(a)	52,242	62,479	10,237	16.4	—	—	—	—
Impairment	38,534	—	(38,534)	—	193,595	7,500	(186,095)	(2,481.3)
Total expenses	<u>1,856,774</u>	<u>1,693,765</u>	<u>(163,009)</u>	<u>(9.6)</u>	<u>1,989,857</u>	<u>1,717,472</u>	<u>(272,385)</u>	<u>(15.9)</u>
Operating income	<u>1,017,258</u>	<u>1,132,055</u>	<u>(114,797)</u>	<u>(10.1)</u>	<u>894,919</u>	<u>1,235,198</u>	<u>(340,279)</u>	<u>(27.5)</u>
Other income (expense):								
Interest and dividend income	8,041	12,426	(4,385)	(35.3)	3,306	3,647	(341)	(9.4)
Realized gain on settlement of derivatives and sale of marketable securities	28,976	9,286	19,690	212.0	—	—	—	—
Interest expense(b)	<u>(848,677)</u>	<u>(813,304)</u>	<u>(35,373)</u>	<u>(4.3)</u>	<u>(158,311)</u>	<u>(185,599)</u>	<u>27,288</u>	<u>14.7</u>
Total other income (expense)	<u>(811,660)</u>	<u>(791,592)</u>	<u>(20,068)</u>	<u>(2.5)</u>	<u>(155,005)</u>	<u>(181,952)</u>	<u>26,947</u>	<u>14.8</u>
Income before income taxes, allocation to minority interests, income from investments in unconsolidated joint ventures and gain on sales of real estate	205,598	340,463	(134,865)	(39.6)	739,914	1,053,246	(313,332)	(29.7)
Income taxes	(1,981)	(5,429)	3,448	63.5	(336)	(772)	436	56.5
Minority interests:								
Partially owned properties	(10,264)	(9,271)	(993)	(10.7)	(10,263)	(9,271)	(992)	(10.7)
Income from investments in unconsolidated joint ventures	50,304	79,882	(29,578)	(37.0)	30,663	42,387	(11,724)	(27.7)
Gain on sales of real estate	<u>21,901</u>	<u>99,110</u>	<u>(77,209)</u>	<u>(77.9)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Income from continuing operations	265,558	504,755	(239,197)	(47.4)	759,978	1,085,590	(325,612)	(30.0)
Discontinued operations	<u>(82,807)</u>	<u>224,459</u>	<u>(307,266)</u>	<u>(136.9)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Income before cumulative effect of a change in accounting principle	182,751	729,214	(546,463)	(74.9)	—	—	—	—
Cumulative effect of a change in accounting principle	<u>(33,697)</u>	<u>—</u>	<u>(33,697)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income	<u>\$ 149,054</u>	<u>\$ 729,214</u>	<u>\$ (580,160)</u>	<u>(79.6)%</u>	<u>\$ 759,978</u>	<u>\$ 1,085,590</u>	<u>\$ (325,612)</u>	<u>(30.0)%</u>
Selected Items from Continuing Operations:								
Property net operating income(c)	<u>\$ 1,802,422</u>	<u>\$ 1,816,361</u>	<u>\$ (13,939)</u>	<u>(0.8)%</u>	<u>\$ 1,804,508</u>	<u>\$ 1,907,124</u>	<u>\$ (102,616)</u>	<u>(5.4)%</u>
Property operating margin(c,d)	<u>63.0%</u>	<u>64.6%</u>	<u>(1.6)%</u>	<u>(1.6)%</u>	<u>62.6%</u>	<u>64.6%</u>	<u>(2.0)%</u>	<u>(2.0)%</u>
Deferred rental revenue	<u>\$ 73,104</u>	<u>\$ 68,462</u>	<u>\$ 4,642</u>	<u>6.8%</u>	<u>\$ 60,813</u>	<u>\$ 68,048</u>	<u>\$ (7,235)</u>	<u>(10.6)%</u>
Income from early lease terminations	<u>\$ 48,056</u>	<u>\$ 53,303</u>	<u>\$ (5,247)</u>	<u>(9.8)%</u>	<u>\$ 38,489</u>	<u>\$ 60,211</u>	<u>\$ (21,722)</u>	<u>(36.1)%</u>

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- (a) Corporate general and administrative expense is not allocated to the Same Store Portfolio because these expenses are not directly incurred in connection with any specific property.
- (b) Interest expense (including amortization of deferred financing costs and prepayment expenses) for the Same Store Portfolio represents interest expense on mortgage debt and does not include interest expense on the unsecured notes or the lines of credit.
- (c) Property net operating income consists of property operating revenues minus property operating expenses. Included in property operating revenues are rental revenue, tenant reimbursements, parking and other income, which includes income from early lease terminations. Included in property operating expenses are real estate taxes, insurance, repairs and maintenance and property operating expenses. See Item 8 — Note 19 for more information.
- (d) Property operating margin is determined by dividing property operating revenues less property operating expenses by property operating revenues.

Property Operating Revenues

Property operating revenues in the Same Store Portfolio decreased in 2004 because of rent roll down and a decrease in average occupancy rates. In addition, income from early lease terminations decreased in 2004 by \$21.7 million.

Property operating revenues in the Total Company increased because of the consolidation of certain properties, acquisitions and developments placed in service, which together increased property operating revenues by \$230.9 million. The increase in property operating revenues from 2003 to 2004 was partially offset by the partial sales of properties in 2003 and 2004 (which are not classified as discontinued operations), which accounted for \$101.3 million of the change in revenue and the decreases in the Same Store Portfolio, as explained above.

Depreciation and Amortization

Depreciation and amortization expense in the Same Store Portfolio increased in 2004 because of capital and tenant improvements placed in service since the beginning of the prior period and an increase in deferred leasing costs.

Depreciation and amortization expense in the Total Company increased in 2004 as a result of the consolidation of certain properties and acquisitions and increases in the Same Store Portfolio, as explained above. The increases were partially offset by the partial sales of properties in 2003 and 2004 (which are not classified as discontinued operations).

Real Estate Taxes

Real estate taxes increased in 2004 in the Same Store Portfolio because of an increase in estimated taxes at our properties located in California of \$16.9 million which was partially offset by lower real estate taxes as a result of lower tax assessments of our Boston properties of \$7.8 million. We anticipate real estate taxes to continue to fluctuate based on changes in property assessments and tax rates by the taxing authorities.

Real estate taxes increased in 2004 in the Total Company as a result of the consolidation of certain properties and acquisitions and increases in the Same Store Portfolio as explained above. The increases were partially offset by the partial sales of properties in 2003 and 2004 (which are not classified as discontinued operations).

Insurance Expense

Insurance expense increased for both the Same Store Portfolio and the Total Company primarily as a result of increased property damage in 2004 and a reduction in insurance expense in 2003. See Item 8 — Note 24.

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Repairs and Maintenance

Repairs and maintenance expense increased in 2004 in the Same Store Portfolio by \$7.0 million, primarily because we expanded our preventive maintenance program in 2004 in an effort to reduce future emergency repairs.

Repairs and maintenance expense increased in 2004 in the Total Company because of the consolidation of certain properties, acquisitions and increases in the Same Store Portfolio as explained above. The increases were partially offset by the partial sales of properties in 2003 and 2004 (which are not classified as discontinued operations).

Property Operating

Property operating expenses increased in 2004 in the Same Store Portfolio because of increases in utility expenses of \$15.7 million, partially offset by a decrease in other property operating expenses of \$6.1 million. The increase in utility expense was primarily due to general increases in rates charged by the utility suppliers and also from settlements of utility contracts in 2003, which had the effect of reducing utility expense in 2003.

Property operating expenses increased in 2004 in the Total Company because of the consolidation of certain properties, acquisitions and increases in the Same Store Portfolio as explained above. The increases were partially offset by the effect of partial sales of properties in 2003 and 2004 (which are not classified as discontinued operations).

Corporate General and Administrative Expenses

The decrease in 2004 in corporate general and administrative expense was caused by a decrease in consulting expenses of \$11.3 million relating to a project that ended in 2003.

Impairment

For a discussion of impairment refer to Item 8 — Note 5.

Interest and Dividend Income

Interest and dividend income decreased in 2004 in the Total Company primarily as a result of lower interest and dividends from various notes receivable and investments, which either matured or were redeemed during the period.

Realized Gain on Settlement of Derivatives and Sale of Marketable Securities

The increase from the prior year in the Total Company was primarily due to the \$24.0 million gain recorded in 2004 when we settled certain interest rate swaps. In 2004, we also recognized gains of \$2.3 million due to the disposition of our investment in shares of Capital Trust (this was a related party transaction, see Item 8 — Note 21) and \$2.4 million from the sale of other securities.

The gain in 2003 was primarily from the sale of common stock received in connection with a lease termination in 2002.

Interest Expense

Interest expense decreased in 2004 in the Same Store Portfolio because of mortgage debt repayments.

Interest expense increased in the Total Company because of the consolidation of certain properties, which accounted for \$58.4 million of the increase, and the write-off of \$5.3 million of unamortized loan costs in connection with the early redemption of certain unsecured notes. These increases were partially offset by a decrease in our weighted average interest rates resulting from having more floating rate debt than fixed rate debt outstanding as compared to the prior year. In addition, the interest rates on the unsecured notes issued in 2004 were lower than the interest rates on the debt repaid in 2004.

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Income from Investments in Unconsolidated Joint Ventures

Income from investments in unconsolidated joint ventures in the Same Store Portfolio decreased primarily because of reduced occupancy and lower average rental rates on new leases as compared to average rental rates on expiring leases. In addition, interest expense increased as a result of the refinancing of a property with a higher loan balance during 2003.

Income from investments in unconsolidated joint ventures in the Total Company decreased primarily because of the consolidation of 1301 Avenue of the Americas, Key Center and Concar and decreases in the Same Store Portfolio as explained above. In 2003, the net income from these properties was included in income from investments in unconsolidated joint ventures. In addition, we sold our interest in Foundry Square IV and recognized a gain of \$7.1 million which was included in income from investments in unconsolidated joint ventures in 2003. This decrease was partially offset by the properties that were partially sold in 2003 and 2004 as they are now accounted for under the equity method.

Gains on Sales of Real Estate

The gain in 2004 related to the partial sale of our interests in 1601 and 1700 Market Street located in Philadelphia, PA. The gain in 2003 related to the partial sale of our interests in 13 office properties. In accordance with FAS 144, the net income from these properties, which includes the gain on sale, is not classified as discontinued operations because we maintain an ongoing involvement with the operation of these properties.

Discontinued Operations

The decrease in discontinued operations was a result of the loss of net income due to sales of properties and a lower net gain on the sale of properties in 2004 as compared to 2003. Discontinued operations in 2003 includes the net income of properties sold in 2003 and 2004, whereas the discontinued operations in 2004 only includes the net income of properties sold in 2004. See Item 8 — Note 5 for a summary of the results of operations of properties sold.

Cumulative Effect of a Change in Accounting Principle

Under the provisions of FIN 46(R), we consolidated the assets, liabilities and results of operations of SunAmerica Center effective January 1, 2004, and recorded a cumulative effect of a change in accounting principle resulting in a loss of \$33.7 million. See Item 8 — Note 3.

III. Liquidity and Capital Resources

Liquidity

Net cash provided by operating activities is primarily dependent upon occupancy levels of our properties, rental rates on our leases and our level of operating and other expenses. Our primary sources of liquidity to fund cash requirements include cash provided by operating activities, borrowings against our lines of credit and proceeds from asset sales. Cash requirements include capital improvements, tenant improvements, leasing costs, distributions to our unitholders, repurchases of our securities and acquisition and development costs.

Our ability to draw upon our lines of credit and to incur additional indebtedness is dependent in part on our compliance with various financial and other covenants. A material adverse change in our net cash provided by operating activities may affect the financial performance covenants under our lines of credit and unsecured notes. If we fail to meet our covenants and are unable to reach a satisfactory resolution with our lenders, our lines of credit could become unavailable to us, the maturity dates for our unsecured notes could be accelerated, the interest charged on the lines of credit could increase and we may not be able to access other sources of financing. Moodys, Standard & Poor's and Fitch provide credit ratings on EOP Partnership. As a result of a downgrade in our credit rating in December 2005, the interest rate on our term loan facility increased 10 basis points to LIBOR plus 55 basis points and the interest rate on our revolving credit facility increased 12.5 basis points to LIBOR plus 60 basis points plus a facility fee of 20 basis points. In addition, the

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interest rate associated with any future financings is likely to be higher due to the decline in our credit ratings. (A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.)

Over the last two years we have taken steps to reposition our portfolio for long-term growth. In 2005, we took advantage of a strong asset-sale environment and sold on an Effective Office Portfolio basis \$2.7 billion of assets comprising 17.8 million square feet and several vacant land parcels. We expect to continue to take advantage of market opportunities and expect to engage in further sales from time to time, based on market conditions.

We have several options for the proceeds generated from asset sales which include acquiring assets in our core markets, reinvestments in our existing portfolio, debt repayments, distributions to our unitholders, and repurchases of Equity Office's Common Shares and EOP Partnership Units. During 2005, we used proceeds from asset sales together with other sources of capital to fund \$1.4 billion in acquisitions, to repay \$1.7 billion of mortgage debt and unsecured notes (with a weighted average effective interest rate of 6.87%), to repurchase 31.0 million Common Shares (at an average purchase price of \$30.68 per share for \$950.7 million under the open market repurchase program) and to redeem 1.8 million Units (at an average purchase price of \$30.67 per Unit for \$56.5 million). We also obtained \$769.1 million of mortgage debt on new and existing properties (including our share of unconsolidated properties of \$131.8 million) with a weighted average effective interest rate of 5.43%. Although our overall debt levels remained relatively unchanged as of December 31, 2005 as compared to December 31, 2004, we were able to reduce our effective borrowing rate on a weighted average basis from 6.57% at December 31, 2004 to 6.51% at December 31, 2005.

In order to qualify as a REIT for U.S. federal income tax purposes, Equity Office must distribute an amount equal to at least 90% of its taxable income (excluding capital gains) to its shareholders. Equity Office currently distributes amounts attributable to capital gains to its shareholders; however, these amounts can be retained by Equity Office and taxed at the corporate tax rate. Accordingly, we currently intend, although we are not legally obligated, to continue to make regular quarterly distributions to holders of our Units and preferred units, at least at the level required to maintain Equity Office's REIT status for U.S. federal income tax purposes. The declaration of distributions on capital shares is at the discretion of Equity Office's Board of Trustees, which decision is made quarterly by Equity Office's Board of Trustees based on then prevailing circumstances. We anticipate that our 2006 annual Unit distribution, which is subject to quarterly approval by Equity Office's Board of Trustees, will be \$1.32 per unit, a decrease from the 2005 annual distribution of \$2.00 per unit.

Reduced rental rates, reduced revenues as a result of asset sales and increased operating expenses have reduced our net cash provided by operating activities. In addition, tenant improvement and leasing costs have increased as compared to historical levels due to competitive market conditions for new and renewal leases. During 2004 and 2005, net cash provided by operating activities was insufficient to satisfy all our cash needs including capital improvements, tenant improvement and leasing costs and distributions to our unitholders. We funded this shortfall primarily with proceeds from financing activities and asset sales. Notwithstanding the reduction in the Common Share dividend, we anticipate a shortfall will continue in 2006, but at a lower level from 2005, and that we will cover the shortfall with proceeds primarily from financing activities and asset sales. Although we anticipate a shortfall during 2006, we expect our cash needs will fluctuate throughout the year and are dependent on factors such as the timing of our distributions, our leasing activities and asset dispositions and acquisitions.

As of December 31, 2005, we had \$1.6 billion of debt maturing in 2006. Because REIT rules for federal income tax purposes require Equity Office to distribute 90% of its taxable income, we will not be able to retain sufficient cash to repay all of our debt as it comes due using only cash from operating activities. As a result, we will be required to repay most of our maturing debt with borrowings and proceeds from asset sales, although there can be no assurance that such dispositions or financings at acceptable terms will be available to us.

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We believe that net cash provided by operating activities, proceeds from existing or future lines of credit, proceeds from other financing sources that we expect to be available to us and proceeds from asset sales will together provide sufficient liquidity to meet our cash needs during 2006.

Distributions

In 2005, Equity Office's Board of Trustees declared distributions on the preferred units as reflected below:

Security	Quarterly Distribution Per Unit	Annual Distribution Per Unit	2005 Total Distributions (Dollars in thousands)
Series B Preferred Units	\$ 0.65625	\$ 2.625	\$ 15,724
Series G Preferred Units	\$ 0.484375	\$ 1.9375	\$ 16,469
			<u>\$ 32,193</u>

Equity Office's Board of Trustees also declared distributions on units for each quarter in 2005 at \$0.50 per unit.

Contractual Obligations

As of December 31, 2005, we were subject to certain material contractual payment obligations as shown in the table below. We were not subject to any material capital lease obligations.

	Total	Payments Due by Period					Thereafter
		2006	2007	2008	2009	2010	
				(Dollars in thousands)			
Mortgage debt(a)	\$ 2,169,383	\$ 108,704	\$ 263,018	\$ 158,178	\$ 630,698	\$ 264,076	\$ 744,709
Unsecured notes(a)	9,056,556	652,924	988,543	490,376	862,475	1,564,207	4,498,031
Lines of Credit	1,631,000	750,000	—	—	881,000	—	—
Series B Preferred Units	299,497	—	—	299,497	—	—	—
Share of mortgage debt of unconsolidated joint ventures	473,725	52,217	3,999	18,610	11,645	96,174	291,080
Consolidated operating lease obligations(b)	1,320,502	22,124	22,119	21,855	21,644	21,733	1,211,027
Unconsolidated operating lease obligations(b)	33,854	564	564	564	564	564	31,034
Total Contractual Obligations	<u>\$ 14,984,517</u>	<u>\$ 1,586,533</u>	<u>\$ 1,278,243</u>	<u>\$ 989,080</u>	<u>\$ 2,408,026</u>	<u>\$ 1,946,754</u>	<u>\$ 6,775,881</u>

(a) Balance excludes net discounts and premiums.

(b) Represents payments due under long-term leases in which we are the lessee of ground parcels and air rights associated with our office properties.

In addition to the contractual payment obligations shown in the table above, we also have various properties under development for which we expect to incur an additional \$686.0 million of costs through 2008. As of December 31, 2005, we are subject to \$99.6 million of payment obligations under our development contracts, which will be paid as costs are incurred through 2007. For a complete listing of properties currently under development, refer to Developments in Process in this MD&A.

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Derivative Financial Instruments

As of December 31, 2005, we had no outstanding derivative financial instruments. See Item 8 — Note 12.

Energy Contracts

In an ongoing effort to control energy costs, we have entered into contracts for the purchase of gas or electricity for certain properties in states which have deregulated energy markets. Typically, the terms of the contracts range from one to three years. Although all or a portion of the commodity price under these contracts is generally fixed, the amounts actually expended under these contracts will vary in accordance with actual energy usage and the timing of energy usage during the period. Our failure to purchase the amount of energy for which we have contractual commitments could result in penalties, depending on market conditions, some of which could be significant.

Off-Balance Sheet Arrangements

As listed above, our share of mortgage debt of unconsolidated joint ventures is \$473.7 million. We do not have any other off-balance sheet arrangements with any unconsolidated investments or joint ventures that we believe have or are reasonably likely to have a material effect on our financial condition, results of operations, liquidity or capital resources.

Property Acquisitions

See Item 8 — Note 24 for information regarding any commitments to acquire properties.

Debt Financing

Consolidated Debt

The table below summarizes our consolidated mortgage debt, unsecured notes and lines of credit indebtedness:

	December 31,	
	2005	2004
	(Dollars in thousands)	
Balance (includes discounts and premiums):		
Fixed rate:		
Mortgage debt	\$ 1,988,377	\$ 2,502,871
Unsecured notes	8,787,620	8,439,016
Total	10,775,997	10,941,887
Variable rate:		
Mortgage debt	175,821	106,196
Unsecured notes and lines of credit(a)	1,876,000	1,761,376
Total	2,051,821	1,867,572
Total	\$ 12,827,818	\$ 12,809,459
Percent of total debt:		
Fixed rate	84.0%	85.4%
Variable rate(a)	16.0%	14.6%
Total	100.0%	100.0%

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Mortgage debt

Unsecured notes

Effective interest rate

Variable rate:

Mortgage debt

Unsecured notes and lines of credit(a)

Effective interest rate

Total

December 31,	
2005	2004
(Dollars in thousands)	
7.01%	7.80%
6.80%	6.87%
6.84%	7.09%
5.17%	5.53%
5.02%	3.75%
5.03%	3.85%
6.55%	6.61%

- (a) The variable rate debt as of December 31, 2004 included \$1.0 billion of fixed rate unsecured notes that were converted to variable rate through several interest rate swaps entered into in March 2004. These swaps were terminated at various times during 2005. The interest rates for the remaining variable rate debt are based on various spreads over LIBOR.

Unconsolidated Joint Venture Debt

The table below summarizes our share of unconsolidated joint venture debt, which consists solely of mortgage debt:

Balance (includes discounts and premiums):

Fixed rate

Variable rate

Total

Effective interest rate at end of period:

Fixed rate

Variable rate

Total

December 31,	
2005	2004
(Dollars in thousands)	
\$ 472,372	\$ 330,929
1,353	30,103
<u>\$ 473,725</u>	<u>\$ 361,032</u>
5.47%	5.56%
10.40%	3.35%
<u>5.48%</u>	<u>5.37%</u>

Mortgage Debt

During 2005 the following transactions occurred:

Balance at December 31, 2004(a)

Repayments and scheduled principal amortization

Assumed through property acquisitions

Repaid upon sale of property

Refinancing

Issuances

Balance at December 31, 2005(a)

(Dollars in thousands)	
\$	2,622,750
	(1,077,322)
	118,486
	(13,386)
	150
	<u>518,705</u>
<u>\$</u>	<u>2,169,383</u>

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(a) Excludes net discounts on mortgage debt.

See Item 8 — Note 9 for more information on our mortgage debt.

Unconsolidated Joint Venture Mortgage Debt

During 2005, our share of the transactions for unconsolidated joint venture mortgage debt was as follows:

	(Dollars in thousands)
Balance at December 31, 2004	\$ 361,032
Scheduled principal payments	(2,807)
Assumed by buyer through a property disposition	(16,250)
Refinancing	6,750
Issuance	125,000
Balance at December 31, 2005	\$ 473,725

See Item 8 — Note 7 for more information on our unconsolidated joint venture mortgage debt.

Restrictions on Mortgage Debt

The mortgages encumbering the properties may include restrictions regarding transfer of title to the respective property subject to the terms of the mortgage, prohibit additional liens, require payment of real estate taxes on the properties, require maintenance of the properties in good condition, require maintenance of insurance on the properties and include a requirement to obtain lender consent to enter into material tenant leases.

Lines of Credit

\$1.25 Billion Revolving Credit Facility

In August 2005, we obtained a \$1.25 billion revolving line of credit, which had an interest rate of LIBOR plus 47.5 basis points and an annual facility fee of 15 basis points, or \$1.875 million. The \$1.25 billion line of credit matures in August 2009. We have one option to extend the maturity date for an additional year for an extension fee of \$1.875 million. The previously existing \$1.0 billion line of credit that was scheduled to mature in May 2006 (which had an interest rate of LIBOR plus 60 basis points plus an annual facility fee of 20 basis points) was terminated in August 2005 effective with the first funding of the \$1.25 billion line of credit. As a result of a downgrade in EOP Partnership's debt rating in December 2005, the interest rate on the \$1.25 billion line of credit increased to LIBOR plus 60 basis points and the annual facility fee increased to 20 basis points, or \$2.5 million. As of December 31, 2005, \$881.0 million was outstanding under our \$1.25 billion line of credit.

We use our lines of credit, together with net cash provided by operating activities and proceeds generated from asset sales, to fund capital improvements, tenant improvement and leasing costs, distributions to our shareholders and unitholders, financing and investing activities and for general working capital purposes. As a result of the nature and timing of the draws, the outstanding balance on our lines of credit is subject to ongoing fluctuation and amounts outstanding under the lines of credit may from time to time be significant. We consider all such borrowings to be in the ordinary course of our business and expect fluctuations in the outstanding balance under the lines of credit.

Bridge Facilities

In October 2005, we obtained and fully drew upon a \$500 million unsecured term loan facility, bearing interest at LIBOR plus 45 basis points (the spread is subject to change based on EOP Partnership's credit rating) and is scheduled to mature in October 2006. As a result of a downgrade in EOP Partnership's debt rating in December 2005, the interest rate on the term loan facility increased to LIBOR plus 55 basis points. In December 2005, we entered into an amendment that increased the facility to \$750 million with an option to

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draw an additional \$250 million (which was exercised in January 2006 — see Item 8 — Note 25). As of December 31, 2005, \$750 million was outstanding under this facility.

In February 2005, we obtained a \$250 million unsecured term loan facility, which had an interest rate of LIBOR plus 35 basis points and was scheduled to mature in February 2006. We repaid and terminated the term loan facility in July 2005.

Unsecured Notes

During 2005, the following transactions occurred:

	(Dollars in thousands)
Balance at December 31, 2004(a)	\$ 9,690,754
Repayments	(675,000)
Issuance	40,802
Balance at December 31, 2005(a)	<u>\$ 9,056,556</u>

(a) Excludes net discounts of \$23.9 million and \$38.4 million at December 31, 2005 and December 31, 2004, respectively.

As of December 31, 2005, \$2.1 billion was available for issuance under two previously filed shelf registration statements totaling \$7.0 billion.

Restrictions and Covenants under Unsecured Indebtedness

The terms of our lines of credit and unsecured notes contain various financial covenants which require satisfaction of certain ratios. As of December 31, 2005, we believe we were in compliance with each of these financial covenants. If we fail to comply with any of these covenants, the indebtedness could become due and payable before its stated due date.

Set forth below are the financial covenants to which we are subject under our unsecured note indentures and our performance under each covenant as of December 31, 2005:

Covenants (a) (in each case as defined in the respective indenture)	Actual Performance
Debt to Adjusted Total Assets may not be greater than 60%	53%
Secured Debt to Adjusted Total Assets may not be greater than 40%	11%
Consolidated Income Available for Debt Service to Annual Debt Service Charge may not be less than 1.50:1	2.2
Total Unencumbered Assets to Unsecured Debt may not be less than 150%(a)	190%

(a) The unsecured notes we assumed in the merger with Spieker, of which \$1.2 billion are outstanding at December 31, 2005, are subject to a minimum ratio of 165%.

*Market Risk**Qualitative Information About Market Risk*

Our future earnings, cash flows and fair values relevant to financial instruments depend upon prevalent market rates for those financial instruments. Market risk is the risk of loss from adverse changes in market prices and interest rates. We manage our market risk by matching projected cash inflows from operating, investing and financing activities with projected cash outflows to fund debt service, acquisitions, capital improvements, distributions to unitholders and other cash requirements. The majority of our outstanding debt obligations (maturing at various times through 2031) have fixed interest rates which limit the risk of fluctuating interest rates. We utilize certain derivative financial instruments at times to limit interest rate risk. Interest rate protection and swap agreements are used to convert fixed rate debt to a variable rate basis, to

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hedge anticipated financing transactions, or convert variable rate debt to a fixed rate basis. Derivatives are used for hedging purposes rather than speculation. We do not enter into financial instruments for trading purposes.

*Quantitative Information About Market Risk**Interest Rate Risk*

As of December 31, 2005 and 2004, \$10.8 billion and \$10.9 billion of our total outstanding debt was fixed rate debt and \$2.1 billion and \$1.9 billion was variable debt, respectively. The fair value of our fixed-rate debt was \$0.7 billion and \$1.1 billion higher at December 31, 2005 and 2004, respectively, than the book value, primarily due to the general decrease in market interest rates on secured and unsecured debt since the date of issuance of our debt. The fair market value of our variable rate debt approximates book value because the interest rate is based on LIBOR plus a spread, which approximates a market interest rate.

The table below discloses the effect of hypothetical changes in market rates of interest on the fair value of total outstanding debt and net income (as a result of changes in interest expense). Interest risk amounts were determined by considering the impact of hypothetical interest rates on our debt. This analysis does not reflect the impact that a changing interest rate environment could have on the overall level of economic activity. Further, in the event of a changing interest rate environment, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, this analysis assumes no change in our financial structure.

As of	Hypothetical change in market rates of interest	(Decrease)/Increase Fair Value of Total Debt	(Decrease)/Increase Net Income
December 31, 2005	+10% or 43 basis points	\$ (227) million	\$ (8.9) million
	-10% or 43 basis points	\$ 236 million	\$ 8.9 million
December 31, 2004	+10% or 27 basis points	\$ (258) million	\$ (5.1) million
	-10% or 27 basis points	\$ 272 million	\$ 5.1 million

Interest Rate Risk — Forward-Starting and Fixed-to-Floating Interest Rate Swaps

As of December 31, 2005, we had no outstanding interest rate swaps. See Item 8 — Note 12 for information on the forward-starting and fixed-to-floating interest rate swaps that were outstanding during 2004 and 2005.

Equity Securities

Equity Office is authorized to repurchase up to \$2.1 billion of Common Shares under its open market repurchase program through May 2006. As shown in the table below, Equity Office repurchased a total of \$1.5 billion Common Shares under this \$2.1 billion program. Repurchases to fund Equity Office's employee benefit programs, including the Employee Share Purchase Plan and Supplemental Retirement Savings Plan, are not considered part of the open market repurchase program. See Item 8 — Note 25 for information about activity in the open market purchase program subsequent to December 31, 2005.

Year	Total Number of Shares Purchased	Average Price Paid Per Share	Total Dollar Value of Shares Repurchased (Dollars in thousands)
2002	7,901,900	\$ 24.92	\$ 196,882
2003	14,236,400	25.53	363,487
2004	1,260,600	25.80	32,518
2005	30,986,900	30.68	950,720
Total	54,385,800	\$ 28.38	\$ 1,543,607

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Our limited partners have the right to require EOP Partnership to redeem their Units for Common Shares or an equivalent amount of cash, as determined by Equity Office as general partner. The following table reflects Units redeemed for cash, which are not considered part of our open market repurchase program.

Year	Total Number of Units Purchased	Average Price Paid Per Unit	Total Dollar Value of Units Repurchased (Dollars in thousands)
2002	3,727,925	\$ 28.62	\$ 106,690
2003	240,240	26.75	6,427
2004	139,256	28.03	3,904
2005	1,843,164	30.67	56,525
Total	5,950,585	\$ 29.16	\$ 173,546

Capital Improvements, Tenant Improvements and Leasing Costs

Capital Improvements

Significant renovations and improvements, which improve or extend the useful life of our properties are capitalized and depreciated over the improvement's useful life. We categorize these capital expenditures as follows:

- *Capital Improvements* — costs for improvements that enhance the value of the property such as lobby renovations, roof replacement, significant renovations for Americans with Disabilities Act compliance, chiller replacement and elevator upgrades.
- *Development and Redevelopment Costs* — costs associated with the development or redevelopment of a property including construction costs, tenant improvements, leasing commissions, capitalized interest and operating costs incurred while the property is made ready for its intended use.

The table below shows the costs incurred for each type of improvement.

	For the years ended December 31,					
	2005		2004		2003	
	Consolidated Properties	Unconsolidated Properties (our share)	Consolidated Properties	Unconsolidated Properties (our share)	Consolidated Properties	Unconsolidated Properties (our share)
	(Dollars in thousands)					
Capital Improvements:						
Capital improvements	\$ 87,445	\$ 6,258	\$ 70,594	\$ 6,387	\$ 64,052	\$ 9,222
Development and redevelopment costs	29,424	—	51,602	—	105,127	5,538
Total capital improvements	<u>\$ 116,869</u>	<u>\$ 6,258</u>	<u>\$ 122,196</u>	<u>\$ 6,387</u>	<u>\$ 169,179</u>	<u>\$ 14,760</u>

During 2005, we increased our spending for capital improvements as part of a program to maintain high levels of quality in our properties. We anticipate spending a similar or higher amount in 2006 as a result of planned projects.

Tenant Improvements and Leasing Costs

Investments in properties related to the renovation, alteration or build-out of existing office space, as well as related leasing costs, are capitalized and depreciated over the shorter of the asset's useful life or the lease term. These tenant improvements may include, but are not limited to, floor coverings, ceilings, walls, HVAC, mechanical, electrical, plumbing and fire protection systems.

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The amounts shown below represent total tenant improvements and leasing costs for tenants who commenced occupancy during the respective period shown.

	For the years ended December 31,					
	2005		2004		2003	
	Total Costs	Total Cost per Square Foot Leased	Total Costs	Total Cost per Square Foot Leased	Total Costs	Total Cost per Square Foot Leased
(Dollars in thousands, except per square foot amounts)						
Consolidated Properties:						
Renewals	\$ 107,458	\$ 12.90	\$ 97,214	\$ 11.62	\$ 128,673	\$ 13.07
Retenanted						
Vacant for less than 12 months	160,061	22.71	154,923	21.12	142,874	21.84
Vacant longer than 12 months	100,887	28.91	104,583	28.03	105,490	30.67
Total Retenanted	260,948	24.76	259,506	23.45	248,364	24.31
Total/ Weighted Average	368,406	19.52	356,720	18.36	377,037	18.79
Unconsolidated Joint Ventures(a):						
Renewals	2,759	12.40	12,330	21.95	17,936	24.09
Retenanted						
Vacant for less than 12 months	14,811	36.15	5,399	21.13	4,948	19.13
Vacant longer than 12 months	15,658	46.14	7,177	46.37	3,078	35.34
Total Retenanted	30,469	40.68	12,576	30.65	8,026	23.21
Total/ Weighted Average	33,228	34.20	24,906	25.62	25,962	23.81
Total Properties:						
Total/ Weighted Average	\$ 401,634	\$ 20.24	\$ 381,626	\$ 18.70	\$ 402,999	\$ 19.05

(a) Represents our share of unconsolidated joint ventures' tenant improvements and leasing costs for office properties.

The information above includes capital improvements incurred during the periods shown. Tenant improvements and leasing costs are reported for tenants who commenced occupancy during the periods shown which is consistent with how we report our per square foot tenant improvements and leasing costs. The amounts included in the consolidated statements of cash flows represent the cash expenditures made during the period, regardless of when the leases commence. The differences between these amounts represent timing differences between the lease commencement dates and the actual cash expenditures. In addition, the figures below include expenditures for furniture, fixtures and equipment, software, leasehold improvements and other.

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The reconciliation between these amounts for the consolidated properties and the amounts disclosed in the consolidated statements of cash flows is as follows:

	For the years ended December 31,		
	2005	2004	2003
	(Dollars in thousands)		
Capital improvements	\$ 87,445	\$ 70,594	\$ 64,052
Tenant improvements and leasing costs:			
Office properties	368,406	356,720	377,037
Industrial properties	—	4,584	3,366
Expenditures for corporate furniture, fixtures and equipment, software, leasehold improvements and other	22,299	10,726	32,397
Subtotal	478,150	442,624	476,852
Development costs	29,424	50,815	96,736
Redevelopment costs	—	787	8,391
Timing differences	(14,255)	82,038	(4,399)
Total capital improvements, tenant improvements and leasing costs	<u>\$ 493,319</u>	<u>\$ 576,264</u>	<u>\$ 577,580</u>
Selected items from the consolidated statement of cash flows:			
Capital and tenant improvements (including development costs)	\$ 370,595	\$ 453,227	\$ 438,601
Lease commissions and other costs	122,724	123,037	138,979
Total	<u>\$ 493,319</u>	<u>\$ 576,264</u>	<u>\$ 577,580</u>

Developments in Process

We own 100% of the following properties which are under development. Our developments consist of new construction as well as significant renovation of existing buildings. Development costs are primarily funded by our lines of credit. Specifically identifiable direct acquisition, development and construction costs are capitalized, including salaries and related payroll costs, real estate taxes and interest incurred in developing the property. All figures stated below are as of December 31, 2005.

Property	Estimated Placed in Service Date (a)	Location	Number of Buildings	Square Feet	Costs Incurred to Date (b)	Total Estimated Costs (c)	Current Percentage Leased
					(Dollars in thousands)		
Summit at Douglas Ridge II	Q2 2005	Roseville, CA	1	93,349	\$ 20,378	\$ 23,806	35%
Kruse Oaks II(d)	Q4 2006	Portland, OR	1	107,000	4,922	20,923	0%
Bridge Pointe Corporate Center III	Q4 2006	San Diego, CA	2	150,000	11,712	35,967	0%
1095 Avenue of the Americas(e)	Q3 2007	New York, NY	1	1,028,083	515,512	849,753	(e)
Foundry Square I (Barclays)	Q4 2007	San Francisco, CA	1	335,890	12,481	145,564	96%
City Center Plaza West	Q1 2008	Bellevue, WA	1	559,400	13,043	188,025	0%
Total			<u>7</u>	<u>2,273,722</u>	<u>\$ 578,048</u>	<u>\$ 1,264,038</u>	<u>16%</u>

- (a) The Estimated Placed in Service Date represents the date the certificate of occupancy was obtained or is currently anticipated to be obtained. Subsequent to obtaining the certificate of occupancy, the property will undergo a lease-up period.

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(b) The Costs Incurred to Date are presented in the balance sheet as follows:

Developments in process	
Deferred leasing costs and other related intangibles recorded at acquisition	\$ 567,129
Total costs incurred to date	<u>10,919</u>
	<u>\$ 578,048</u>

- (c) The Total Estimated Costs include the acquisition cost of the land and building. The Total Estimated Costs are subject to change upon, or prior to, the completion of the development and include amounts required to lease-up the property.
- (d) The land underlying this development is owned by a third party from whom we lease it under a ground lease agreement.
- (e) On September 29, 2005 we acquired 79%, or 1,028,083 square feet, of 1095 Avenue of the Americas. Verizon, the sole tenant, occupied 96.8% of the property at acquisition. Verizon will be moving out in phases throughout 2006. We plan to redevelop the property as Verizon vacates the premises, and we anticipate the redevelopment to be completed in Q3 2007.

In addition to the developments described above, we own or have under option various land parcels available for development. These sites represent possible future development of up to approximately nine million square feet of office space. These potential developments will be impacted by the timing and likelihood of success of the entitlement processes, both of which are uncertain. These various sites include: Russia Wharf, Boston, MA; Prominence in Buckhead, Atlanta, GA; Perimeter Center, Atlanta, GA; Tabor Center, Denver, CO; Bridge Pointe Corporate Center, San Diego, CA; La Jolla Centre, San Diego, CA; Orange Center, Orange, CA; Skyport Plaza, San Jose, CA; Station Landing, Walnut Creek, CA; 8th Street, Bellevue, WA; 175 Wyman, Waltham, MA; Parkshore Plaza, Folsom, CA; Commerce Plaza, Oakbrook, IL; and First & Main, Portland, OR.

Inflation

Substantially all of our office leases require the tenant to pay, as additional rent, their respective portion of real estate taxes and operating expenses. In addition, many of our office leases provide for fixed increases in base rent or escalations indexed to the Consumer Price Index or other measures. We believe that a significant portion of increases in property operating expenses will be offset, in part, by expense reimbursements and contractual rent increases described above.

Cash Flows

The table below summarizes the changes in our cash and cash equivalents as a result of operating, investing and financing activities for the last three years:

	For the years ended December 31,		
	2005	2004	2003
	(Dollars in thousands)		
Cash and cash equivalents at the beginning of the period	\$ 107,126	\$ 69,398	\$ 58,471
Net cash provided by operating activities	987,990	1,207,967	1,219,571
Net cash provided by (used for) investing activities	921,413	(685,333)	657,553
Net cash (used for) financing activities	(1,938,365)	(484,906)	(1,866,197)
Cash and cash equivalents at the end of the period	<u>\$ 78,164</u>	<u>\$ 107,126</u>	<u>\$ 69,398</u>

Operating Activities

Cash provided by operating activities depends primarily on cash received from tenants in our properties in accordance with their lease obligations, less payments for our operating and other expenses. The decrease in net cash provided by operating activities from 2004 to 2005 is primarily due to reduced net income as a result

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of asset sales and increased operating expenses (as previously discussed within this document) and an increase in prepaid real estate taxes in 2005.

Investing Activities

Net cash provided by and used for investing activities reflects the net impact of acquisitions and dispositions of properties, expenditures for capital improvements, tenant improvements and lease costs (as previously discussed within this document). It also includes decreases in escrow deposits and restricted cash which primarily relates to the release of escrow funds from property sales.

Financing Activities

Net cash used for financing activities generally includes cash provided by or used for debt transactions, distributions to our common and preferred shareholders and repurchases of our securities. Our significant 2005 transactions have been discussed previously within this document.

Analysis of Selected Balance Sheet Items

The table below contains selected balance sheet items that have changed significantly from December 31, 2004 to December 31, 2005.

	December 31, 2005	December 31, 2004	Change
		(Dollars in thousands)	
Developments in process	\$ 567,129	\$ 40,492	\$ 526,637
Investments in real estate held for sale, net of accumulated depreciation	\$ 75,211	\$ 163,390	\$ (88,179)
Tenant and other receivables	\$ 94,858	\$ 75,775	\$ 19,083
Investments in unconsolidated joint ventures	\$ 947,989	\$ 1,117,143	\$ (169,154)
Deferred leasing costs and other related intangibles	\$ 522,926	\$ 450,625	\$ 72,301
Prepaid expenses and other assets	\$ 303,181	\$ 191,992	\$ 111,189

Developments in Process

As of December 31, 2005, we had six properties under development, one of which comprised \$516 million (see Developments in Process in this MD&A for information on these six developments). As of December 31, 2004, we had one property under development which was placed in service during the second quarter of 2005.

Investment in Real Estate Held for Sale, Net of Accumulated Depreciation

In accordance with FAS 144, we have classified certain properties as held for sale. Properties held for sale are reflected in our consolidated balance sheets at the lower of their historical cost or their fair value less cost to sell (determined based on the estimated sales prices and estimated transaction costs). The properties' net income and provision for losses, if any, are included in discontinued operations (see Item 8 — Note 5). At December 31, 2004, we had one property held for sale, Northland Plaza, which was sold in 2005. At December 31, 2005, we had three properties held for sale, two of which were sold in 2006.

Tenant and Other Receivables

The increase in tenant and other receivables was primarily driven by an increase in operating expense reimbursements due from tenants. The increase in these tenant reimbursements was impacted by increases in utility and repair and maintenance costs during late 2005. We recover a portion of the increase in our operating expenses from our tenants.

Table of Contents*Investments in Unconsolidated Joint Ventures*

The decrease in investments in unconsolidated joint ventures was primarily caused by several transactions during 2005 including the sales of our interests in Preston Commons, Sterling Plaza and Chase Center, as well as the mortgage financing of Yahoo! Center and SunTrust Center.

Deferred Leasing Costs and Other Related Intangibles

The increase in deferred leasing costs and other related intangibles was primarily the result of leasing costs incurred during 2005 for new and renewal leases and deferred leasing costs recorded in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations* ("FAS 141"), partially offset by amortization expense and dispositions.

Prepaid Expenses and Other Assets

The increase in prepaid expenses and other assets was the result of a \$26.1 million increase in prepaid real estate taxes primarily attributable to the New York region, a \$40.7 million note receivable, net of deferred gain, representing a bridge loan that we made to the buyer of One Phoenix Plaza (see Item 8 — Note 5) and a \$50.0 million investment in junior mezzanine debt that we made as part of a debt refinancing on 375 Park Avenue (accounted for as a note receivable — see Item 8 — Note 4). The increase was partially offset by a \$17.3 million distribution from the refinancing proceeds of our investment in John Hancock Complex (see Item 8 — Note 4).

IV. Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting periods. We base our estimates on historical experience and other assumptions that we believe are reasonable. Certain accounting policies are considered to be critical accounting policies, as they require management to make assumptions about matters that are uncertain at the time the estimate is made. In the event our estimates and assumptions are different from actual results, adjustments are made in subsequent periods to reflect more current information. Management believes the following critical accounting policies reflect our more significant judgments and estimates used in the preparation of our consolidated financial statements. For a summary of all of our significant accounting policies, see Item 8 — Note 2.

Revenue Recognition

Our revenue is primarily derived from contractual lease obligations. Management's determination of the collectibility of current tenant receivables requires significant judgment which may impact the recognition of revenues. See Allowance for Doubtful Accounts below for more information.

We recognize revenue from rent, tenant reimbursements, parking and other revenue once all of the following criteria are met in accordance with SEC Staff Accounting Bulletin 104:

- the agreement has been fully executed and delivered;
- services have been rendered;
- the amount is fixed or determinable; and
- the collectibility of the amount is reasonably assured.

Listed below are our primary sources of revenue:

Rental Revenues

We record rental revenues on a straight-line basis as they are earned during the lease term. Certain leases provide for tenant occupancy during periods for which no rent is due or where minimum rent payments change

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during the lease term. Accordingly, a receivable is recorded representing the difference between the straight-line rent and the rent that is contractually due from the tenant. These amounts are classified as deferred rent receivable on the consolidated balance sheets. When a property is acquired, the terms of existing leases are considered to commence as of the acquisition date for purposes of this calculation. Deferred rental revenue included in rental revenue from continuing operations for the years ended December 31, 2005, 2004 and 2003 totaled \$57.2 million, \$73.1 million and \$68.5 million, respectively. Deferred rental revenue is not recognized for income tax purposes.

We begin recognizing rental revenue when the tenant takes possession or controls the physical use of the leased space. In order for the tenant to take possession of the finished space, the leased space must be substantially ready for its intended use. When we are the owner of the tenant improvements, the leased space is ready for its intended use when the tenant improvements are substantially completed. In limited instances, when the tenant is the owner of the tenant improvements, straight-line rent is recognized when the tenant takes possession of the unimproved space.

The determination of who owns the tenant improvements is subject to significant judgment. In making that determination, we consider various factors, including, but not limited to:

- Whether the lease agreement specifies what or how the tenant improvement allowance is spent;
- Whether the tenant improvements are unique to the tenant or general-purpose in nature;
- Whether the ownership of the tenant improvements remains with the landlord or remains with the tenant at the end of the lease term;
- Who bears substantial construction risk and cost of the tenant improvements.

When we are the owner of the tenant improvements we record our cost to construct the tenant improvements as an asset and depreciate the cost over the shorter of the asset's useful life or the non-cancelable lease term. To the extent we funded all or a portion of an improvement that is owned by the tenant, we treat the cost as a lease incentive and amortize the costs as a reduction to rental revenue on a straight-line basis over the term of the lease. Lease incentives may also include cash payments to or on behalf of tenants or the buy-out of a prospective tenant's existing lease obligation with a third party and are amortized as a reduction to rental revenue on a straight-line basis over the term of the lease.

Tenant Reimbursement Revenues

Tenant reimbursements represent amounts due from tenants for items such as common area maintenance, real estate taxes, insurance, repairs and maintenance and other recoverable costs. Tenant reimbursement revenue is recognized as the related expenses are incurred.

Parking Revenues

Parking revenues represent amounts generated from contractual and transient parking at our office building garages. Revenue is recognized in accordance with contractual terms or as services are rendered.

Other Revenues

Other revenues primarily consist of income from early lease terminations. Income from early lease terminations represents amounts received from tenants (net of any deferred rent receivable) in connection with the early termination of their remaining lease obligation. If, upon termination of the lease, it is probable that the tenant will file for bankruptcy within 90 days, or if significant contingencies in the lease termination agreement exist, we will defer recognizing the lease termination fee as revenue until such uncertainties have been eliminated.

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Allowance for Doubtful Accounts

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of certain tenants to meet the contractual obligations under their lease agreements. Management actively reviews receivables from tenants and determines the probability of collection for receivables identified as potentially uncollectible. The amount of the allowance is recorded net of any security deposits or outstanding letters of credit held by us from the tenant.

We continue to experience uncollectible receivables relating to tenants in bankruptcy or tenants experiencing financial difficulty. If we underestimate the allowance for doubtful accounts, our financial condition and results of operations could be adversely affected. Our bad debt expense from continuing and discontinued operations for each of the three years in the period ended December 31, 2005 was \$12.8 million (in 2003), \$5.5 million (in 2004) and \$6.4 million (in 2005).

Impairment of Long-Lived Assets

We account for the impairment or disposal of long-lived assets in accordance with FAS 144. Rental properties are individually evaluated for impairment when conditions exist which may indicate that it is probable that the sum of expected future cash flows (on an undiscounted basis) over the anticipated holding period is less than its historical cost. Upon determination that a permanent impairment has occurred, rental properties are reduced to their fair value. If a property is considered held for sale, a provision for loss is recognized if the fair value of the property, less the estimated cost to sell, is less than the carrying amount of the property. Depreciation and amortization expense ceases once a property is considered held for sale.

Our estimate of the expected future cash flows used in testing for impairment is highly subjective and based on, among other things, our estimates regarding future market conditions, rental rates, occupancy levels, costs of tenant improvements, leasing commissions and other tenant concessions, assumptions regarding the residual value of our properties at the end of our anticipated holding period and the length of our anticipated holding period. These assumptions could differ materially from actual results. If our strategy changes or if market conditions otherwise dictate a reduction in the holding period and an earlier sale date, an impairment loss could be recognized and such loss could be material.

Over the last two years, we took steps to reposition our portfolio for long-term growth. We identified assets in non-core markets and non-strategic assets in core markets that we intended to sell as market conditions warranted. As a result, we incurred significant impairment charges (see Item 8 — Note 5).

Depreciation and Amortization

FAS 141 was effective for business combinations initiated on or after July 1, 2001. Depreciation expense on properties acquired prior to July 1, 2001 is computed using the straight-line method based on an estimated useful life of 40 years. A significant portion of the acquisition cost of each property was allocated to building (usually 85% to 90% unless the property was subject to a ground lease in which case 100% of the acquisition cost was allocated to building). Depreciation expense on properties acquired subsequent to the effective date of FAS 141 is based on the allocation of the acquisition cost to land, building, tenant improvements and intangibles and their estimated useful lives. We engage a third party to assist in the allocation of the acquisition cost. The assumptions used in the allocation of the acquisition cost are subjective and are based on many factors including, but not limited to, the hypothetical expected lease-up periods, local market conditions including anticipated rental rate growth and the estimated probability of lease renewal and its estimated term. If we do not appropriately allocate acquisition cost to these components or we incorrectly estimate the useful lives of these components, our recognition of depreciation and amortization expense over future periods may be inaccurate.

Insurance

We have a captive insurance company which is a wholly-owned taxable REIT subsidiary. We are responsible for losses up to a certain level for property damage, business interruption, earthquakes, terrorism

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and other events, general liabilities and other programs prior to third-party insurance coverage. When damages occur, we rely on third-party providers, such as actuaries and adjustors, to assist in determining the estimated loss. In some instances, this may require significant judgment and to the extent the actual loss incurred differs from the initial estimate, our financial results may be impacted. See Item 8 — Note 24 for more information.

Fair Value of Financial Instruments

We are required to determine periodically the fair value of our mortgage debt and unsecured notes for disclosure purposes. Our debt consists of notes that have fixed and variable interest rates. The fair market value of variable rate debt approximates book value because the interest rate is based on LIBOR plus a spread, which approximates a market interest rate. As of December 31, 2005 and 2004, the fair value of our fixed-rate debt was \$0.7 billion and \$1.1 billion higher than the book value of \$10.8 billion and \$10.9 billion, respectively, primarily due to the general decrease in market interest rates on secured and unsecured debt since the date of issuance of our debt. In the determination of these fair values, we engage a third party and use internally developed models based on our estimates of current market conditions. The net present value of the difference between future contractual interest payments and future interest payments based on a current market rate represents the difference between the book value and the fair value. The current market rates are determined by adding an estimated risk premium to the quoted yields on federal government debt securities with similar maturity dates to our own debt. The risk premium estimates are based on our historical experience in obtaining either secured or unsecured financing and are also affected by current market conditions.

In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133"), the carrying values of interest rate swaps, as well as the underlying hedged liability, if applicable, are reflected at their fair value. We rely on quotations from a third party to determine these fair values.

Because the valuations of our financial instruments are based on estimates, the fair value may change if the estimates are inaccurate. For the effect of hypothetical changes in market interest rates on interest expense for variable rate debt, the fair value of total outstanding debt and our interest rate swaps, see the Market Risk section.

Impact of New Accounting Standards and Accounting Standards Recently Adopted

New Accounting Standards

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (“FAS 123 (R)”), which replaced FAS 123. FAS 123(R) requires compensation cost related to share-based payment transactions to be recognized in the financial statements. The provisions of FAS 123(R) may be adopted using either a modified-prospective or a modified-retrospective transition method. We will adopt FAS 123(R) effective January 1, 2006 using the modified-prospective method. Because we used a fair value based method of accounting for determining compensation expense associated with the issuance of all share options and other equity awards granted or modified after January 1, 2003, we do not expect the adoption of this standard will have a material effect on our results of operations and financial position. Had we adopted FAS 123(R) in prior periods, the impact of that standard would have approximated the impact of FAS 123 as described in the disclosure of pro forma net income and earnings per unit in Item 8 — Note 2.

In June 2005, the FASB ratified the consensus in Emerging Issues Task Force 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"), which states that the general partner in a limited partnership is presumed to control that limited partnership. This presumption may be overcome if the limited partners have either (1) the substantive ability to dissolve the limited partnership or otherwise remove the general partner without cause or (2) substantive participating rights, which provide the limited partners with the ability to effectively participate in significant decisions that would be expected to be made in the ordinary course of business and thereby preclude the general partner from exercising unilateral control over the partnership. EITF 04-5 is effective June 30, 2005 for new or modified limited partnership

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arrangements and effective January 1, 2006 for existing limited partnership arrangements. Although our adoption had no effect on net income available to unitholders or partners' capital, we will be required to consolidate certain existing joint ventures effective January 1, 2006 that we previously accounted for under the equity method. We expect that the consolidation of these joint ventures effective January 1, 2006 will result in an increase in total assets of \$2 billion and total liabilities of \$790 million (including mortgage debt of \$680 million, our share of which is \$307 million).

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3* ("FAS 154"). FAS 154 changes the requirements for the accounting and reporting of a change in accounting principle by requiring retrospective application to prior periods' financial statements, unless it is impracticable to do so. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We will apply the provisions of FAS 154 beginning January 1, 2006.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143* ("FIN 47"). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*, represents a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement is conditional on a future event that may or may not be within a company's control. Under this standard, a liability for a conditional asset retirement obligation must be recorded if the fair value of the obligation can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. Certain of our real estate assets contain asbestos. The asbestos is appropriately contained and we believe we are compliant with current environmental regulations. If these properties undergo major renovations or are demolished, certain environmental regulations are in place, which specify the manner in which the asbestos must be handled and disposed. As of December 31, 2005, we recorded an asset retirement obligation of \$7.0 million related to asbestos at a redevelopment property we acquired in late 2005. We have asbestos at other properties, but because the obligations to remove the asbestos from these properties have indeterminable settlement dates, we are unable to reasonably estimate the fair value.

Subsequent Events

See Item 8 — Note 25 for events that occurred subsequent to December 31, 2005 through March 8, 2006.

V. Funds From Operations ("FFO")

FFO is a non-GAAP financial measure. We believe FFO, as defined by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), to be an appropriate measure of performance for a real estate company, for the reasons, and subject to the qualifications, specified below.

The following table reflects the reconciliation of FFO to net income, the most directly comparable GAAP measure, for the periods presented:

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	For the Years Ended December 31,				
	2005	2004	2003	2002	2001
(Dollars in thousands, except per Unit amounts)					
Reconciliation of net income to FFO(a):					
Net income	\$ 43,846	\$ 149,054	\$ 729,214	\$ 859,420	\$ 694,431
Adjustments:					
Plus depreciation and amortization:					
Included in income from continuing operations and discontinued operations	797,441	793,144	730,351	691,004	575,030
Included in income from investments in unconsolidated joint ventures	51,382	47,185	53,802	50,443	52,901
Allocated to minority interests in partially owned properties	(5,907)	(6,917)	(4,899)	(3,606)	(4,132)
Non-real estate related depreciation and amortization	(15,606)	(16,100)	(14,647)	(11,790)	(9,877)
Less net gain on sales of real estate:					
Included in income from continuing operations and discontinued operations	(231,223)	(29,497)	(161,063)	(17,926)	(81,662)
Included in income from investments in unconsolidated joint ventures	(26,499)	—	(7,063)	(428)	—
Allocated to minority interests in partially owned properties	29,699	214	—	—	—
Plus extraordinary item	—	—	—	—	1,000
Plus cumulative effect of a change in accounting principle	—	33,697	—	—	1,142
FFO	643,133	970,780	1,325,695	1,567,117	1,228,833
Put option settlement	—	—	—	—	2,655
Preferred distributions	(34,803)	(39,093)	(51,872)	(62,573)	(57,041)
FFO available to unitholders — basic	<u>\$ 608,330</u>	<u>\$ 931,687</u>	<u>\$ 1,273,823</u>	<u>\$ 1,504,544</u>	<u>\$ 1,174,447</u>
Adjustments to arrive at net income and FFO available to unitholders plus assumed conversions:					
Net income and FFO	\$ 43,846	\$ 149,054	\$ 729,214	\$ 859,420	\$ 694,431
Put option settlement	—	—	—	—	—
Preferred distributions	(34,803)	(39,093)	(51,872)	(62,573)	(57,041)
Net income and FFO available to unitholders	9,043	109,961	677,342	796,847	640,045
Preferred distributions on Series B units, of which are assumed to be converted into Units(b)	—	—	—	—	—
Net income and FFO available to unitholders plus assumed conversions	<u>\$ 9,043</u>	<u>\$ 109,961</u>	<u>\$ 677,342</u>	<u>\$ 796,847</u>	<u>\$ 640,045</u>
Weighted average Units, dilutive potential Units plus assumed conversions outstanding	<u>452,046,455</u>	<u>450,997,247</u>	<u>452,561,353</u>	<u>469,138,720</u>	<u>411,986,897</u>
Net income and FFO available to unitholders plus assumed conversions per Unit	<u>\$ 0.02</u>	<u>\$ 0.24</u>	<u>\$ 1.50</u>	<u>\$ 1.70</u>	<u>\$ 1.55</u>
Units and Unit Equivalents					
Weighted average Units outstanding	448,346,887	448,919,302	450,594,465	467,134,774	408,919,582

Effect of dilutive potential units:					
Share options and restricted shares	<u>3,699,568</u>	<u>2,077,945</u>	<u>1,966,888</u>	<u>2,003,946</u>	<u>3,067,315</u>
Weighted average Units and dilutive potential units used for net income available to unitholders	452,046,455	450,997,247	452,561,353	469,138,720	411,986,897
Impact of conversion of Series B preferred units(b)	<u>—</u>	<u>—</u>	<u>8,389,354</u>	<u>8,389,354</u>	<u>8,392,856</u>
Weighted average Units, dilutive potential units plus assumed conversions used for the calculation of FFO available to unitholders plus assumed conversions	<u>452,046,455</u>	<u>450,997,247</u>	<u>460,950,707</u>	<u>477,528,074</u>	<u>420,379,753</u>

- (a) FFO is a non-GAAP financial measure. The most directly comparable GAAP measure is net income, to which it is reconciled. See definition below.
- (b) The Series B preferred units are not dilutive to EPS for each period presented and are not dilutive to FFO per Unit for the years ended December 31, 2005 and December 31, 2004 but are dilutive to FFO per Unit for all other periods presented.
- (c) FFO for the years ended December 31, 2005, December 31, 2004, December 31, 2003 and December 31, 2001 includes approximately \$426.0 million, \$231.3 million, \$7.5 million and \$135.2 million, respectively, of non-cash charges relating to properties sold and properties we intend to sell, which is equivalent to \$0.94 per Unit, \$0.51 per Unit, \$0.02 per Unit and \$0.32 per Unit on a diluted basis, respectively. These charges are not added back to net income when calculating FFO.

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FFO is defined as net income, computed in accordance with accounting principles generally accepted in the United States ("GAAP"), excluding gains from sales of properties (but not losses from sales of properties, impairments, or provisions for losses on properties held for sale), plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect FFO on the same basis. We believe that FFO is helpful to investors as one of several measures of the performance of a real estate company. We further believe that by excluding the effect of depreciation, amortization and gains from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, FFO can facilitate comparisons of operating performance between periods and between other real estate companies. Investors should review FFO, along with GAAP net income when trying to understand a real estate company's operating performance. We compute FFO in accordance with our interpretation of the standards established by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), which may not be comparable to FFO reported by other real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do. FFO does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to net income, determined in accordance with GAAP, as an indication of our financial performance, or to cash flow from operating activities, determined in accordance with GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Quantitative and qualitative disclosures about market risk are incorporated herein by reference from Item 7.

Table of Contents**Item 8. Financial Statements and Supplementary Data.****REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Partners of EOP Operating Limited Partnership

We have audited the accompanying consolidated balance sheets of EOP Operating Limited Partnership ("EOP Partnership") as of December 31, 2005 and 2004, and the related consolidated statements of operations, partners' capital, net comprehensive income and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index a Item 15(a). These financial statements and schedule are the responsibility of EOP Partnership's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of EOP Partnership at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of EOP Partnership's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2006 expressed an unqualified opinion thereon.

As discussed in Notes 2 and 3 to the consolidated financial statements, in 2004 EOP Partnership changed its method of accounting for certain property holding entities and other subsidiaries in which EOP Partnership owns less than a 100% equity interest. In addition, in 2003 EOP Partnership changed its method of accounting for stock-based employee compensation.

/s/ Ernst & Young LLP

Chicago, Illinois
March 8, 2006

Table of Contents**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM****The Partners of EOP Operating Limited Partnership**

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting included at Item 9A, that EOP Operating Limited Partnership ("EOP Partnership") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). EOP Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that EOP Partnership maintained effective internal control over financial reporting as of December 31, 2005 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, EOP Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2005 and 2004, and the related consolidated statements of operations, partners' capital, net comprehensive income and cash flows for each of the three years in the period ended December 31, 2005 of EOP Partnership and our report dated March 8, 2006, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
March 8, 2006

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**EOP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2005	2004
	(Dollars in thousands, except per unit amounts)	
Assets:		
Investments in real estate	\$ 22,949,723	\$ 24,835,216
Developments in process	567,129	40,492
Land available for development	176,868	252,524
Investments in real estate held for sale, net of accumulated depreciation	75,211	163,390
Accumulated depreciation	(3,336,789)	(3,151,446)
Investments in real estate, net of accumulated depreciation	20,432,142	22,140,176
Cash and cash equivalents	78,164	107,126
Tenant and other receivables (net of allowance for doubtful accounts of \$8,853 and \$6,908, respectively)	94,858	75,775
Deferred rent receivable	496,826	478,184
Escrow deposits and restricted cash	38,658	48,784
Investments in unconsolidated joint ventures	947,989	1,117,143
Deferred financing costs (net of accumulated amortization of \$45,920 and \$59,748, respectively)	58,809	61,734
Deferred leasing costs and other related intangibles (net of accumulated amortization of \$232,024 and \$193,348, respectively)	522,926	450,625
Prepaid expenses and other assets	303,181	191,992
Total Assets	<u>\$ 22,973,553</u>	<u>\$ 24,671,539</u>
Liabilities, Minority Interests, Mandatorily Redeemable Preferred Units and Partners' Capital:		
Liabilities:		
Mortgage debt (net of (discounts) of \$(5,185) and \$(13,683), respectively)	\$ 2,164,198	\$ 2,609,067
Unsecured notes (net of (discounts) of \$(23,936) and \$(38,362), respectively)	9,032,620	9,652,392
Lines of credit	1,631,000	548,000
Accounts payable and accrued expenses	574,225	556,851
Distribution payable	3,736	2,652
Other liabilities (net of (discounts) of \$(25,597) and \$(28,536), respectively)	483,468	484,378
Commitments and contingencies	—	—
Total Liabilities	<u>13,889,247</u>	<u>13,853,340</u>
Minority interests — partially owned properties	<u>172,278</u>	<u>182,041</u>
Mandatorily Redeemable Preferred Units:		
5.25% Series B Convertible, Cumulative Redeemable Preferred Units, liquidation preference \$50.00 per unit, 5,989,930 and 5,990,000 issued and outstanding, respectively	<u>299,497</u>	<u>299,500</u>
Partners' Capital:		
Preferred Units, 100,000,000 authorized:		
7.75% Series G Cumulative Redeemable Preferred Units, liquidation preference \$25.00 per unit, 8,500,000 issued and outstanding	212,500	212,500
Other Partners' Capital:		
General Partner Capital	63,985	76,973
Limited Partners' Capital	8,392,937	10,112,024
Deferred compensation	(533)	(1,916)
Accumulated other comprehensive loss (net of accumulated amortization of \$11,948 and \$5,133, respectively)	(56,358)	(62,923)
Total Partners' Capital	<u>8,612,531</u>	<u>10,336,658</u>
Total Liabilities, Minority Interests, Mandatorily Redeemable Preferred Units and Partners' Capital	<u>\$ 22,973,553</u>	<u>\$ 24,671,539</u>

See accompanying notes.

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EOP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended December 31,		
	2005	2004	2003
	(Dollars in thousands, except per unit amounts)		
Revenues:			
Rental	\$ 2,340,922	\$ 2,278,286	\$ 2,224,934
Tenant reimbursements	422,436	403,816	405,290
Parking	114,057	108,061	103,107
Other	105,434	69,643	76,628
Fee income	17,740	14,226	15,861
Total revenues	3,000,589	2,874,032	2,825,820
Expenses:			
Depreciation	656,102	614,748	561,033
Amortization	93,663	72,954	56,428
Real estate taxes	339,006	324,481	305,588
Insurance	59,567	29,521	19,846
Repairs and maintenance	340,904	312,928	297,677
Property operating	441,834	390,454	370,487
Ground rent	22,517	20,912	20,227
Corporate general and administrative	66,536	52,242	62,479
Impairment	65,738	38,534	—
Total expenses	2,085,867	1,856,774	1,693,765
Operating income	914,722	1,017,258	1,132,055
Other income (expense):			
Interest and dividend income	15,896	8,041	12,426
Realized gain on settlement of derivatives and sale of marketable securities	157	28,976	9,286
Interest:			
Expense incurred	(819,868)	(833,393)	(806,812)
Amortization of deferred financing costs and prepayment expenses	(11,857)	(15,284)	(6,492)
Total other income (expense)	(815,672)	(811,660)	(791,592)
Income before income taxes, allocation to minority interests, income from investments in unconsolidated joint ventures and gain on sales of real estate	99,050	205,598	340,463
Income taxes	272	(1,981)	(5,429)
Minority interests — partially owned properties	(9,825)	(10,264)	(9,271)
Income from investments in unconsolidated joint ventures (including gain on sales of real estate of \$26,499, \$0 and \$7,063, respectively)	68,996	50,304	79,882
Gain on sales of real estate	46,308	21,901	99,110
Income from continuing operations	204,801	265,558	504,755
Discontinued operations (including net gain on sales of real estate and provision for (loss) on properties held for sale of \$(22,082), \$5,473 and \$61,953, respectively)	(160,955)	(82,807)	224,459
Income before cumulative effect of a change in accounting principle	43,846	182,751	729,214
Cumulative effect of a change in accounting principle	—	(33,697)	—
Net income	43,846	149,054	729,214
Preferred distributions	(34,803)	(39,093)	(51,872)
Net income available to unitholders	\$ 9,043	\$ 109,961	\$ 677,342
Earnings per unit — basic:			
Income from continuing operations per unit	\$ 0.38	\$ 0.50	\$ 1.01
Net income available to unitholders per unit	\$ 0.02	\$ 0.24	\$ 1.50
Weighted average Units outstanding	448,346,887	448,919,302	450,594,465
Earnings per unit — diluted:			
Income from continuing operations per unit	\$ 0.38	\$ 0.50	\$ 1.00
Net income available to unitholders per unit	\$ 0.02	\$ 0.24	\$ 1.50
Weighted average Units outstanding and dilutive potential units	452,046,455	450,997,247	452,561,353
Distributions declared per Unit outstanding	\$ 2.00	\$ 2.00	\$ 2.00
Allocation of net income available to unitholders:			
General Partner	\$ 90	\$ 1,101	\$ 6,774
Limited Partners	8,953	108,860	670,568
Net income available to unitholders	\$ 9,043	\$ 109,961	\$ 677,342

See accompanying notes.